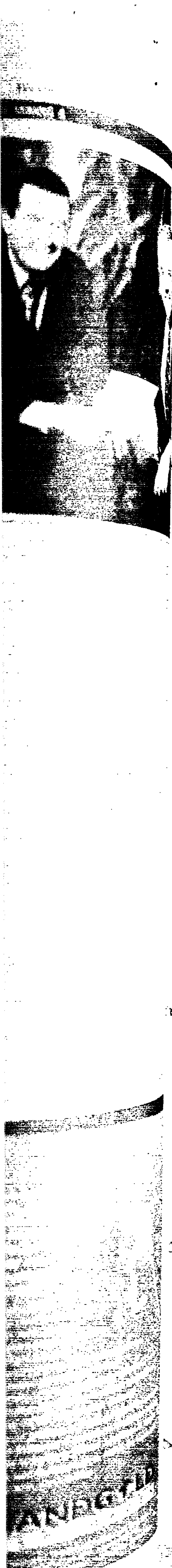

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FINANCIAL TIMES

World Business Newspaper http://www.FT.com THURSDAY NOVEMBER 26 1998

Deutsche Bank
The biggest challenge is still in Germany
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Virtual manufacturing
A fast track for small companies
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Quantum computing
The next big thing is tiny
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Emu shock treatment
Sensible ideas have been left on the shelf
Samuel Brittan, Page 14

WORLD NEWS

Turkish leader voted out of office over corruption claims

Turkey was plunged into a political vacuum after its government collapsed over corruption allegations. Mesut Yilmaz, prime minister for only 16 months, was voted out of office on a censure motion. **Page 16; World stocks, Page 38**

IMF to set up Russia think-tank The International Monetary Fund has invited about 20 Russia experts to a "brainstorming session" on Monday to help rethink the policies it advocates following the country's financial crash in August. **Page 16; Russia asked to bid for Iranian reactors, Page 2; Pakistan agrees IMF loan package, Page 4**

Denmark wins budget agreement Denmark's centre-left coalition government has won agreement for its budget from four opposition parties. **Europe, Page 2**

Ukrainian man faces execution Ukraine may break a moratorium on capital punishment and execute a man accused of 52 killings if he is found guilty. Anatoliy Onoprienko, 39, has apparently admitted the killings.

Brussels warns Germany The European Commission warned the German government against pushing for a harmonised minimum level of company taxation during its six-month presidency of the European Union. **Europe, Page 2; Lex, Page 16**

Norway drops plan to lift taxes Norway's coalition government averted a defeat over its proposed 1999 budget by abandoning a package of tax rises and agreeing to consider a privatisation programme. **Europe, Page 2**

Call for regulation of big mergers The head of Germany's federal cartel office yesterday called for an international body to regulate big cross-border mergers. **Europe, Page 3**

China prepares for US export ban China has launched a drive to prepare for a US ban on its exports packed in untreated wooden crates. **Trade, Page 7**

Netanyahu postpones overseas trip Benjamin Netanyahu, Israel's prime minister, has postponed a trip overseas in a move to shore up his unstable coalition government. **International, Page 5**

EU and US in trade talks Washington and Brussels were locked in talks at the World Trade Organisation in Geneva in an effort to head off a trade war over bananas. **Trade, Page 7**

UK trade gap at record level The UK's trade deficit with the rest of the world has reached a record, according to official data. The government blamed the crises in Asia. **UK, Page 8**

Mass graves found in Algeria Algerian authorities said they had discovered two suspected mass graves on the outskirts of the capital Algiers.

Beijing to bid for 2008 games Beijing will bid to host the 2008 summer Olympic Games after losing a battle with Sydney for the right to stage the event in 2000. **Asia-Pacific, Page 4**

Finland honours former president Finns honoured former President Mauno Koivisto on his 75th birthday for helping Finland cling to its ties with the West despite fears of provoking neighbouring Russia during the Cold War.

BUSINESS NEWS

Exxon and Mobil 'in talks over possible merger'

Exxon, the world's second largest energy group, is in talks to take over Mobil, the second largest US oil and gas group, according to people close to both companies.

The negotiations are said to be at an advanced stage and an announcement could come early next week. If successfully completed it will be the largest industrial merger.

Mobil has a market capitalisation of more than $60bn against Exxon's $176bn. The negotiations follow the $55bn merger announced in August between British Petroleum and Amoco.

Bolloré group of France cancelled its shareholders' pact with Bouygues, touching off a new burst of speculation on the future of one of the country's premier industrial empires. **Companies and markets, Page 17; Lex, Page 16**

Deutsche Bank has expressed an interest in buying part of the cable television network owned by the partially privatised Deutsche Telekom. **European companies, Page 18**

IBM has reached agreement with Sony, Warner, EMI, Universal and other US record companies to participate in a digital music distribution system known as the Madison Project. **Companies and markets, Page 17; Lex, Page 16**

Competition between the world's largest credit rating agencies for market share in Europe's growing capital markets is intensifying ahead of monetary union in January. **Companies and markets, Page 17**

Saga Petroleum, Norway's third largest oil company, criticised the purchase of a 5 per cent block of its shares by Statoil, the state oil company. **International companies and finance, Page 22**

CPC, the Caspian Pipeline Consortium, is set to sign its first big contract for the 1,500km, $2.2bn pipeline connecting Kazakhstan's Tengiz oilfield with the Black Sea. **Trade, Page 7**

British Telecommunications made its boldest move into the Internet market by buying 50 per cent of the UK business of Excite, one of the biggest US portal groups, for $10m. **Britain, Page 9**

Scores of new telecom companies are jostling for business in the European Union 11 months after the last restrictions on the telecoms sector were lifted. **Europe, Page 2**

Stora of Sweden and Enso of Finland received European Commission approval for their proposed merger. **International companies and finance, Page 21**

Eni, the Italian oil and gas group, expects a modest 2.3 per cent decline in full year net profits to about L5,000bn ($2.96bn). **European companies, Page 18**

Nestlé shares fell by over 5.8 per cent after it warned that profits had been hit by a sharp drop in sales in Russia and in Asia. **European companies, Page 18**

Euro Prices
A comprehensive statistical guide to the euro currency zone, covering foreign exchange, bond and equity markets.
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UK approves Pinochet extradition proceedings

Britain heads for confrontation with Chile after ruling by senior court

By John Mason and Andrew Parker in London and Imogen Mark in Santiago

Britain was last night facing a diplomatic confrontation with Chile after the House of Lords, the UK's most senior court, approved the extradition to Spain of General Augusto Pinochet, the former Chilean dictator, to stand trial accused of crimes against humanity.

The five law lords ruled by a 3-2 majority that Gen Pinochet was not immune from prosecution because international law, developed since the second world war, meant heads of state could be tried for crimes such as torture and genocide.

Spain is seeking to try Gen Pinochet on charges of murder, torture and hostage-taking, allegedly committed after he seized power in 1973.

The ruling was received with anger in Chile. President Eduardo Frei said his government would continue to fight for the release of Gen Pinochet who must now remain under arrest in a private London hospital.

President Frei said he would send Jose Miguel Insulza, the Chilean foreign minister, to London as a special envoy to lobby for the former dictator's release.

Jack Straw, the UK home secretary, must now consider whether to block the extradition request by allowing Gen Pinochet to return to Chile on compassionate grounds. However, such a decision would cause embarrassment to the government which is still attempting to prove it operates an ethical foreign policy. Underlining his dilemma, he has asked for an extension to the December 2 deadline for his extradition decision.

The law lords ruling delighted leftwingers in the UK's ruling Labour party and human rights groups which had campaigned for Gen Pinochet to be extradited.

Human Rights Watch, the international monitoring group, said: "This is a great day of victory for Pinochet's thousands of victims. The wheels of justice are turning at last."

However, the ruling dismayed opposition Conservative party politicians. William Hague, the Conservative leader, called for the general to be allowed to return to Chile. Baroness Thatcher, the former prime minister and a close political ally of Gen Pinochet since the Falklands war, said he should be allowed home immediately because he was "old, frail and sick".

"I remain convinced that the national interests of both Chile and Britain would be best served by releasing him, which the home secretary has it in his power to do," she said.

In Chile, both the government and opposition parties appealed for calm. However, there were fears of isolated attacks on British or Spanish citizens and businesses. Senior military officials were particularly worried about possible kidnap attempts on British or Spanish citizens.

There was no immediate reaction from the Chilean army or other military services. However, President Frei has called a meeting of the National Security Council for today at which the four most senior military commanders will be present. Analysts think troop movements may increase.

In Spain, the ruling was seen as adding to the Madrid government's discomfort over the affair. The government only reluctantly supported the extradition request of examining magistrate Baltasar Garzon. A cabinet official said "many things still have to be resolved" in the case.

Lionel Jospin, France's socialist prime minister, welcomed the ruling, saying: "This is a surprise, a joy and at the same time bad news for dictators."

The Pinochet judgment, Page 6
Day of judgment, Page 14
Editorial Comment, Page 15

Demonstrators celebrate outside the House of Lords in London after the UK's most senior court approved the extradition to Spain of the former Chilean dictator General Augusto Pinochet

US acts over Boeing and Airbus prices

Trade inquiry launched after list increase for commercial aircraft

By Michael Skapinker in London

The US Federal Trade Commission has launched an investigation into prices charged by Boeing and Airbus Industrie, the world's two biggest aircraft makers, for commercial aircraft.

The FTC acted after the two manufacturers announced increases in their list, or official, prices earlier this year, industry observers say.

The US authorities were also concerned about separate interviews with the Financial Times in which Boeing and Airbus executives said they would no longer compete purely on price.

The FTC declined to comment.

The investigation is understood to be at an early stage. Boeing and Airbus were asked to submit pricing information and answer preliminary questions by the end of last month. Boeing said earlier this year it would increase list prices on most of its aircraft by 5 per cent. Airbus announced a 3 per cent increase.

The two manufacturers are likely to mount a vigorous defence. They are expected to argue that although they would like to increase profits, most airlines still receive discounts on the list prices. Both British Airways, which this year placed its first-ever Airbus order, and Ryanair, the Irish low-fares carrier which ordered Boeings, are known to have achieved substantial discounts.

Boeing, which has its headquarters in Seattle, and Airbus, the European consortium, are the world's only manufacturers of aircraft with more than 100 seats. However, they have traditionally competed furiously, frequently undercutting each other's prices.

Analysts said price competition was a significant factor behind Boeing's $178m net loss last year – the group's first for 50 years. The loss, and production problems at Boeing's factories, resulted in the dismissal earlier this year of Ron Woodard, head of the group's commercial aircraft division.

In September, following Mr Woodard's dismissal, Boeing said it would concentrate on profitability and would cede market share to Airbus rather than sell aircraft at a loss. Noël Forgeard, who became managing director of Airbus earlier this year, said the consortium – owned by Aerospatiale of France, Daimler-Chrysler Aerospace of Germany, British Aerospace and Casa of Spain – would also concentrate on achieving a profit on each aircraft order.

Asked whether Boeing would be content to see Airbus win more orders in a year, as happened in 1994, Harry Stonecipher, Boeing president, said: "We can live with that. You bet."

Mr Forgeard said Airbus would be less concerned about achieving its earlier long-term goal of 50 per cent of the world market. The consortium has traditionally taken about a third.

He said earlier this year: "Our target for market share is the one that optimises returns to our shareholders."

Airbus is a *Groupement d'Intérêt Economique*, a French legal construct, which does not publish accounts and makes no profits in its own right. All profits and losses accrue to its four shareholders. However, the four have agreed to turn Airbus into a limited company by next year.

Germany warned against pushing uniform tax plan

By Peter Norman in Brussels

The European Commission yesterday warned Germany's new left-of-centre government against pushing for a harmonised minimum level of company taxation during its six-month presidency of the European Union.

Mario Monti, commissioner responsible for taxation, said such an initiative would be premature.

He called instead on EU finance ministers to concentrate on implementing the package, agreed a year ago, to tackle harmful conflict of business taxes among member states.

Mr Monti did not specify Germany or name Oskar Lafontaine, the German finance minister, but his remarks were a warning shot to the recently-elected German government and provided support for British government objections to a growing movement among left-of-centre political parties in continental Europe for greater EU tax harmonisation.

The commissioner doubted that there existed political support for minimum business taxes in the EU and warned that a debate on the issue could destabilise the consensus to implement the existing corporate tax package based on a code of conduct to eliminate harmful measures.

Mr Monti said the EU's goal was to co-ordinate aspects of national tax policies to reduce harmful distortions in the European single market and encourage tax structures to develop in a way that would increase employment.

Last month's coalition agreement between Germany's Social Democratic party and the environmental Greens pledged the red-green government of chancellor Gerhard Schröder to "an effective minimum taxation of companies" in the EU.

Mr Lafontaine, attending his first meeting of EU economics and finance ministers this week, made clear Germany wanted to achieve some "first results" on tax harmonisation during its presidency starting on January 1. He singled out corporate taxation and the elimination of tax havens in the EU as high priorities.

Mr Monti will, at a meeting of finance ministers in Brussels on Tuesday, report on progress on implementing the code of conduct on business taxation and on discussions within the EU about a disputed Commission proposal for a 20 per cent withholding tax on savings.

"If you have a tax beaven for a few people you condemn the rest to a tax hell," Mr Monti said.

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WORLD MARKETS

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	9,282.68	(−8.48)
NASDAQ Composite	1,977.0	(+11.12)
Europe and Far East		
CAC40	3,849.84	(+10.46)
DAX	4,944.37	(−14.45)
FTSE 100	5,753.3	(−43.0)
Nikkei	15,073.47	(−91.17)
US LUNCHTIME RATES		
Federal Funds	5.0%	
3-mth Treas Bills: Yld	4.56%	
Long Bond	100$\frac{3}{4}$	
Yield	5.19%	
OTHER RATES		
UK: 3-mo Interbank	6⅞%	(unch'd)
UK: 10 yr Gilt	132.61	(132.64)
France: 10 yr OAT	134.98	(134.97)
Germany: 10 yr Bund	105.57	(105.58)
Japan: 10 yr JGB	107.30	(107.26)
NORTH SEA OIL (Argus)		
Brent Dated	$10.43	(10.57)

GOLD		
New York: Comex		
(Dec)	$296.5	(296.4)
London:		
	$298.45	(298.15)
EXCHANGE RATES		
Dollar		
New York: lunchtime		
£	1.66045	
DM	1.70245	
FFr	5.7088	
SFr	1.40755	
Y	121.795	
London:		
£	1.6620	(1.6615)
DM	1.7047	(1.7045)
FFr	5.7165	(5.7158)
SFr	1.4087	(1.4067)
Y	121.93	(120.65)
Tokyo Close		Y 120.66
Sterling		
DM	2.8331	(2.832)

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Chicago · Los Angeles · Tokyo · Hong Kong

Bahrain	Din1.300	Belgium	BFr80	Cyprus	C£1.35
Denmark	DKr21.00	Estonia	EEK34.00	Finland	FM19.00
France	FFr12.50	Gibraltar	£0.75	Greece	Dr450
Hungary	Ft380	Iceland	[illegible]	Italy	L3400
Jordan	JD1.75	Kuwait	Fils750	Latvia	Ls1.65
Lithuania	Lit21.00	Luxembourg	LFr60	Morocco	Dh18.00
Netherlands	Fl5.00	Nigeria	N120.00	Norway	NKr21.00
Oman	OR1.75	Poland	Zl 10.00	Portugal	Esc280
Qatar	QR13.00	S.Arabia	SR13.00	S.Africa	R18
Saudi	[illegible]	Sweden	SKr22.00	Syria	SP 80.00
Switzerland	SFr3.80	Turkey	[illegible]	UAE	Dh13.00

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WORLD NEWS

EUROPE

NUCLEAR REACTORS US REINFORCES OPPOSITION TO DEAL

Russia asked to bid for $3bn Iranian contract

By Andrew Jack in Moscow and Stephen Fidler in Washington

Russia has been asked to bid for the construction of three new Iranian nuclear reactors, in a deal potentially worth more than $3bn but which could also set Moscow on a collision course with the US.

Yevgeny Adamov, the Russian energy minister, who returned from talks in Iran this week, announced the signature of a new $800m contract for completion of Iran's Bushehr nuclear power station over the next four to five years. He confirmed that Iran had asked Russia to bid for three other reactors worth a total of more than $3bn.

The latest Russian commitment comes at a time when the country is keen to expand its exports in the lucrative nuclear field to help boost its struggling economy, but it risks triggering renewed antagonism with the US, which is worried about the development of nuclear weapons in Iran.

Iran is among the countries affected by US sanctions, and the US over this summer applied sanctions against seven Russian organisations which it claimed had broken Russia's own export controls by assisting Iran's ballistic missiles programme.

A State Department spokesman said yesterday the US had repeatedly raised the issue with the Russian government "at every level" and would continue to do so. "Iran has a programme to develop nuclear weapons and the US is opposed to any co-operation with Iran's nuclear sector, including the Bushehr project," he said.

However, he said Russia had given assurances to the US that none of the technology involved in its co-operation with Iran would be useful militarily. This would rule out co-operation on gas centrifuge facilities and heavy water reactors. "We appreciate these assurances that this is for peaceful use, but we are going to continue to make our opposition clear to the Russian government," he said.

At a press conference yesterday, Mr Adamov accused the US of not taking a consistent position. He said Washington ignored Russia's concerns about the development of nuclear power in Israel and Pakistan, and that the US had backed a nuclear programme in North Korea using technology similar to that which would be used for Bushehr.

In a separate meeting, Vladimir Orlov, head of the PIR Centre of Political Studies in Moscow, claimed Israeli projections that Iran would develop nuclear weapons within two to three years were "exaggerated", and it was more likely to take eight to 10 years.

At the same meeting, Viktor Mikhailov, deputy nuclear energy minister, dismissed as groundless US fears of the nuclear civil programme being used for military ends. He also stressed that it was the US, Germany and France which first launched a nuclear energy programme with Iran in the 1970s with a plan to build 32 reactors.

BA stake in Iberia expected next week

By David White in Madrid

A long-awaited deal for British Airways to take a shareholding in Spain's flag-carrier airline Iberia is *expected to be signed in* Madrid in the middle of next week, aviation officials said yesterday.

The deal, believed to be worth around £230m ($380m), will open the way for Iberia's entry into the recently formed Oneworld alliance and set the stage for full privatisation of the Spanish carrier.

Terms for selling a 10 per cent stake jointly to BA and American Airlines are due to be approved tomorrow by the board of Sepi, the Spanish government holding company which owns 95 per cent of Iberia.

BA, which is set to take the bulk of the holding with a share of about 9 per cent, is believed to have already given provisional approval. Further stakes in Iberia are set to be allocated to Spanish institutional shareholders before stock market flotation in the spring, involving an initial public offering of about 50 per cent of the capital.

The link was mooted well over a year ago, but talks were held up by differences over the size and valuation of BA's planned stake and delays in the formation of the UK operator's planned alliance with American Airlines, because of demands by European and US regulators.

A three-way link had been expected to take shape soon after Iberia signed a commercial agreement with American in September last year covering "code-sharing" – arrangements to sell seats on each other's flights – and frequent-flyer programmes.

BA was understood to be seeking a larger stake in running Iberia, but Spanish authorities ruled out ceding more than 10-15 per cent to foreign partners. The final deal is expected to give BA and American two seats on the Iberia board, which now has 14 members.

Iberia is also to have the option of taking minority shareholdings in the partner airlines.

Iberia is one of several airlines preparing to join the Oneworld network launched by BA, American, Canadian Airlines, Cathay Pacific and Qantas.

The Spanish carrier, which emerged from losses in 1996 after a state aid package, reported a 74 per cent rise in group pre-tax profits for the first 10 months of this year to Pta50.2bn ($350m). Earlier this month, it took full control of its domestic sister airline Aviaco.

SATELLITE DIGITAL TELEVISION REGULATORY BODY ACCUSES GOVERNMENT OF FAVOURING US COMPANY OVER FRENCH-LED GROUP

Watchdog in row over Polish TV market

By Christopher Bobinski in Warsaw

Fierce competition for the Polish market between two satellite digital television groups yesterday burst into the political scene when the country's broadcast media regulator accused the government of favouring a US *company over a French-led* group in the race for Polish viewers.

Boleslaw Sulik, head of the KRRiT, the regulatory body, said the government's speed on November 18 in moving to close down satellite transmissions from Polish territory by Polska Platforma Cyfrowa, a local digital television venture headed by France's Canal Plus, gave the impression that "the government was a party to the conflict".

The charge was rebutted by Marek Zdrojewski, the communications minister. He insisted his officials had merely been enforcing the law. The Canal Plus-led group had failed to acquire the right documents for the equipment needed to broadcast its signal from Poland to a satellite, said Mr Zdrojewski.

The competing US company @ Entertainment, uses the Wizja TV brand, and broadcasts into Poland from *Maidstone in the UK. It is* funded through debt and equity issues worth $350m.

Canal Plus, a French pay TV broadcaster, has had a terrestrial operation in place since 1994. It recently put together a digital platform with Polish state television as well as Polsat, the leading private locally owned broadcaster. Both groups went on air this autumn and are spending heavily on advertising to build an audience for the direct satellite service. *Both are also using* local cable networks to reach more than 700,000 homes each.

Canal Plus gained the advantage over the US company when it struck its deal on building the digital TV venture with Poland's state television. This is deemed crucial to the success of any digital operation in Poland. Not only can state television provide archives and production resources, but also a potential client base worth *several hundred thousand* viewers where reception of its signal is poor or non-existent.

Mr Sulik said yesterday that Poland had become a "battleground between US and European interests in the broadcasting field". Robert Kwiatkowski, head of state television, said that he could not understand why the government had as late as last August "been encouraging Polish broadcasters to put together a national digital platform" with the French company. "This about face in less than three months is incomprehensible," he said.

YUGOSLAV POLITICS MILOSEVIC DISMISSES HIS ARMY CHIEF

General 'blocked coup attempt in Montenegro'

By Guy Dinmore in Podgorica, Montenegro

General Momcilo Perisic, dismissed as chief of the Yugoslav army by President Slobodan Milosevic on Tuesday, had blocked a coup attempt in Montenegro earlier this year and his removal could threaten stability in the small Yugoslav republic, Montenegro's foreign minister said yesterday.

Branko Perovic said in an interview that Gen Perisic had refused to obey orders from Mr Milosevic to use units of the federal Yugoslav army based in Montenegro to impose a state of emergency and prevent the inauguration of Milo Djukanovic, the reformist opponent to Mr Milosevic, as president.

Armed supporters of Momir Bulatovic, the former president of Montenegro and a close ally of Mr Milosevic, staged riots in the capital, Podgorica, last January on the eve of the inauguration *of Mr Djukanovic. Mr* Perovic said the attempted coup failed when Yugoslav troops followed orders from Gen Perisic and stayed in their barracks.

"With the removal of General Perisic, the possibility of military intervention in Montenegro is much higher than before," Mr Perovic said. He urged the international community to pressure Mr Milosevic not to use force against his political opponents.

Gen Perisic has been replaced by his deputy, Gen Dragoljub Ojdanic, a hardliner close to Mr Milosevic. Last month Mr Milosevic also replaced the head of Serbia's secret police whose loyalty was suspect.

Western diplomats said the dismissal of Gen Perisic, long rumoured, was also due to his reluctance to have the federal army involved in the conflict against ethnic Albanian separatists in Serbia's Kosovo province. Most of the fighting has been led by special police units.

Gen Perisic last month made an outspoken attack on what he called "amateurs" in the Serbian leadership. According to diplomats, he was the main force behind Mr Milosevic's decision to make a deal that averted Nato air strikes against Serbia because of its offensive in Kosovo.

Mr Djukanovic, at a meeting of the federal Supreme Defence Council in Belgrade on Tuesday, opposed Gen Perisic's dismissal but was outvoted by the body's two other members – Mr Milosevic and his ally, Milan Milutinovic, president of Serbia. Montenegro and Serbia are the only republics left in Yugoslavia after its disintegration in the early 1990s.

Reuters adds from Belgrade: The Yugoslav government is again challenging the authority of the United Nations war crimes tribunal by refusing to grant visas to investigators, a UN prosecutor, Graham Blewitt, said yesterday.

Experts were last month barred from Serbia's rebel Kosovo province, in direct defiance of a UN Security Council resolution. The visa *ban has now been extended* to tribunal investigations into the Bosnian war which ended in 1995.

Palestinian leader Yassir Arafat (right) shakes hands with French president Jacques Chirac in Paris yesterday before talks with French leaders and the Egyptian president, Hosni Mubarak AP

EU 'has dynamic telecoms market'

By Emma Tucker in Brussels

Scores of new telecommunications companies are jostling for business in the European Union, just 11 months after the last restrictions on the sector were lifted, according to a report yesterday.

The European Commission said that its latest survey of the market showed a "dynamic and rapidly evolving" EU telecoms market with lower tariffs for national, business and international phone calls.

But the liberalisation process is far from complete, with three countries – Luxembourg, Portugal and Greece – lagging far behind the other EU 12.

These three countries still rely on one national operator for all basic voice telephony, compared with 33 companies which are authorised to offer national voice telephone services in Sweden, and 100 operators for international services in the UK.

By the end of August, across the EU, there were 218 operators offering national telephone services, with 284 offering international services, along with 77 mobile operators.

National regulatory authorities have been established in all member states. However, Brussels has queried their independence in Belgium, France, Finland, Luxembourg and Ireland.

The late establishment of *an authority* in Italy has created legal uncertainty there, and lack of staff in Belgium, Greece, Italy and Luxembourg has jeopardised their ability to tackle the large case load.

The presence of many new players in the market suggests that licensing laws are working, the report added.

But in some countries, the conditions for obtaining a licence are considered too onerous. The level of fees in France and Germany is judged too high.

Negotiations between new entrants and regulators over connection to national networks take too long in Belgium, Germany, France and Austria.

Brussels is also worried about the scarcity of interconnection agreements in the fixed market and the lack of transparency in cost accounting systems.

Martin Bangemann, the commissioner in charge of telecoms, said that fears of poorer members of society, *and those in outlying areas* being cut off as a result of liberalisation had proved totally unfounded.

Czechs hope for further cuts in interest rates

By Robert Anderson in Prague

The Czech central bank believes the outlook for inflation is optimistic enough to give room for further cuts in interest rates, adding to the five already made over the last four months.

In an interview, Josef Tosovsky, the bank governor, said: "We can expect further falls in inflation and this is reflected in our interest rate policy. There is still room to go down unless there is a sudden exchange rate deterioration."

Inflation has fallen from a peak of 13.4 per cent in March to 8.2 per cent last month. This rapid decline led the bank earlier this month to cut the two-week repo rate by 1 percentage point to 11.5 per cent, bringing the total reduction since the Social Democrat government took office in mid-July to 3.5 percentage points.

However, Mr Tosovsky said the bank was worried about union demands for pay increases of around 11 per cent, when average inflation next year was likely to be 7 per cent.

He also said pension and social security reforms were needed to stop the public sector sinking into deeper deficit, although he was not concerned by the planned Kc31bn ($1.03bn) government deficit for next year, which represents an estimated 1.6 per cent of gross domestic product.

The recent rapid fall in interest rates has been seized upon by some politicians – notably former premier Vaclav Klaus – as evidence that the bank kept rates too high for too long and was to blame for the current recession. Some ministers have also suggested curbing the central bank's independence to ensure a closer fit with fiscal policy.

Mr Tosovsky conceded there was a question mark over how the bank used its increased freedom in the first half of this year, when he stepped aside to be interim prime minister. But he said concern over currency weakness in a time of political instability explained the bank's caution.

He warned, however, that reducing the bank's independence would send a negative signal. "Usually this pressure arises when the economy is weak and when politicians are seeking excuses," he said. "The bank is a big target and it is always good to shoot at a big target because you can't miss."

Mr Klaus, leader of the opposition Civic Democrats, has said Mr Tosovsky should take politicians' views into account when he nominates new members of the bank board to the president in February. "The appointments to the board must be based more on the existing political arrangement," Mr Klaus said recently.

FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. The shareholder of the Financial Times (Europe) GmbH is Pearson Overseas Holdings Limited, 3 Burlington Gardens, London, W1X 1LE. Shareholder of this company is Pearson plc, registered at the same address.
GERMANY:
Responsible for Advertising content: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg. ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254. Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Bradley P. Johnson. Telephone +46 8 791 2345. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

R

Norway ditches plan to increase taxes

By Tim Burt in Stockholm

Norway's coalition government yesterday averted a damaging defeat over its proposed 1999 budget by abandoning a NKr4bn ($536m) package of tax increases and agreeing to consider a limited privatisation programme.

The minority coalition, which holds just 42 of the 165 seats in parliament, said it had secured support from the rightwing Progress and Conservative parties for a heavily modified budget.

Senior coalition officials said the multi-party deal would ensure that the budget would be passed by parliament, enabling the government to remain in office.

The opposition Labour party had threatened a vote of no confidence, had the coalition failed to win sufficient support for its original budget proposals. Under the revised budget, the three-party coalition has agreed to drop increases in income and corporation tax.

In a political about-turn, the coalition has agreed for the first time to consider Conservative party demands for a phased privatisation programme in Norway. A minority stake in Telenor, the state telecommunications group, could be sold off next year, followed by Arcus, the wholesale alcohol importer and supplier.

Following pressure from the Progress party, the coalition has also abandoned proposed cuts in defence.

The revised budget received a mixed response from economists in Oslo. Some expressed concern that the watered *down tax proposals* could undermine government attempts at a fiscal tightening, aimed at cooling the economy. Others suggested the combined effect of a weakening global economy and seven successive interest rate rises this year by Norges Bank, the central bank, had already helped to slow Norwegian economic growth. "I do not think the original budget fully took into account out*side factors*," said Steinar Juel, chief economist at Christiania Bank. "The outlook has changed since the proposals were announced."

The initial budget envisaged a fiscal tightening equivalent to NKr9bn, or 1 per cent of gross domestic product. Under the revised proposals, due to be debated on Monday, the fiscal tightening will be reduced to less than NKr3bn.

The government has agreed to NKr2.63bn of spending cuts in more than a dozen areas, from municipal grants to fishing boat financing. At the same time, it has drawn up plans for modest expenditure increases in defence and policing.

A spokesman for Kjell Magne Bondevik, the Norwegian prime minister, said: "Although we will have to find cuts in a number of areas, this will allow the government to continue."

Danish government wins agreement for budget

Denmark's centre-left minority coalition government yesterday won agreement for its budget from four opposition parties, after an unusually rapid negotiation process, **Clare MacCarthy writes in Copenhagen.**

The budget will reduce state expenditure by an estimated DKr8bn ($1.2bn) next year via a blend of spending cuts and new sources of income. It will have a fiscal tightening effect of between 0.4 per cent and 0.5 per cent of gross domestic product. This should bring 1999 GDP growth to 1.7 per cent.

EU SUBSIDIES PLAN TO RING-FENCE POORER AREAS TO ATTRACT FUNDS RUNS INTO A WAVE OF CRITICISM

Rich Ireland polishes begging bowl

By John Murray Brown in Dublin

The Kilkenny People called it "a prime example of dodgy accounting". The Limerick Leader dubbed it the "new apartheid".

The cause of this outburst of editorial spleen from some of Ireland's regional newspapers is the government's bid to split the country into rich and poor regions to avail of continued European aid.

Ireland receives more budget transfers per head of population than any European Union state. But with the economy growing faster than the rest of the EU, it no longer qualifies for Objective One funds given to poor regions, as its GDP per capita is more than 75 per cent of the EU average.

The government solution is to divide the country into two – with 15 counties in the midlands, the border region and the west treated as a separate region.

Officials insist this is a pragmatic strategy to maximise EU transfers. But in so doing, Bertie Ahern, the prime minister, has clearly alienated some of his own backbenchers from constituencies in areas such as Kilkenny and Limerick which will not benefit.

Moreover, by including Kerry – in spite of the fact its GDP per capita is at 101 per cent of the EU average – Mr Ahern has been seen to bow to the implicit threats of backbench independent Jackie Healey Rae on whom he relies to sustain his minority coalition.

The opposition Fine Gael party has accused the government of "political cuteness". One of its European MPs claimed Ireland's stance was a "severe embarrassment to our reputation in Europe".

Monika Wulf-Mathies, EU's regional affairs commissioner, said Ireland's bid would not be accepted if it was just "subsidy shopping". *She reportedly told Mr* Ahern that adopting such a policy would not guarantee continued Objective One funding.

But Peter Brennan, who heads the Irish Business and Employers Confederation in Brussels points out several other member states are playing the same game.

"I think we have to get our heads out of the structural funds trough and look at, not how much we might get from Brussels, but what we might spend the money on," says Mr Brennan.

As well as helping directly to fund Ireland's infrastructure, the Objective One status will determine the level of state aid to local industry. In the new region it will be possible for a business to receive a 55 per cent capital grant, as opposed to 20 per cent in the rest of the country.

As any local politician knows only too well, that could affect jobs, and thus ultimately his support at the next election.

First cabinet held in Berlin since 1945

By Ralph Atkins and Tobias Buck in Berlin

"Ick bin ein Berliner," declared Gerhard Schröder, the German chancellor, yesterday, pronouncing *ich* with a "k" like a native of the city.

If he meant to capture the significance of the first cabinet meeting in Berlin since the second world war, the chancellor's comment was hardly original. But it was oddly appropriate: borrowed from the past and the sort of thing usually said by visiting dignitaries.

This was only a brief dip into the future by a cabinet on a day trip from Bonn, the modest Rhineland university town that for 50 years has acted as Germany's temporary seat of government. The Berlin chancellery is still under construction, so the cabinet met in the cherry wood and aluminium "diplomatic" reception room of the 1960s state council building used by Erich Honecker, former Communist leader of East Germany.

The signs telling civil servants where to go were stuck up with sticky tape in a building which nowadays usually houses exhibitions. Next door the new foreign ministry was still under construction.

Mr Schröder is determined to make the city the symbolic capital of his "republic of the new political centre" as soon as possible – even if that involves everyone making the 650km journey from the Rhine. "All the aircraft arrived on time," said Uwe-Karsten Heye, government spokesman. "If that is a condition for being able to work here, it was fulfilled."

As for the ubiquitous building sites, which still make travelling in Berlin subject to frequent delays, the "cabinet adopted the laid-back attitude of Berliners," Mr Heye said.

It was a flying visit and by lunchtime, Mr Schröder was on his way back to Bonn. But the sense of history was still there.

The coloured-glass window on the stairway up to the cabinet's meeting room was full of muscular socialist workers and soldiers. The former Communist state council building incorporates the balcony and archway of the former Berlin palace – site of Karl Liebknecht's declaration of a German socialist republic in November 1918. The rest of the palace was torn down by the Communists in 1951.

Outside, a freezing easterly wind blew from Poland and the former Soviet Union – a chilly reminder both of the recent past and of the fact that Germany's politics are shifting geographically.

Shaky start takes shine off Schröder's election victory

Conflicts, mistakes and communication breakdowns have beset Germany's new chancellor, reports **Ralph Atkins** from Berlin

As Germany's cabinet gathered yesterday for the first time in Berlin, Gerhard Schröder, the chancellor, was looking for more than just a fresh start at a new venue.

His coalition's first four weeks in office have been marked by conflicts, mistakes and communication breakdowns that have taken the shine off his election victory over Helmut Kohl.

"Perhaps we wanted too much too quickly," Mr Schröder admitted on Tuesday.

First, there have been rifts in his Social Democratic party (SPD). He was nominated chancellor-candidate only six months before the election on September 27 and has had little chance to stamp his authority on the party. Second, his coalition partner, the Green party, is inexperienced in government and is still attached to its radical, pacifist roots.

But Mr Schröder's difficulties have also reflected contradictions in his own style – between his pragmatic instincts and his adherence to traditional SPD themes of equality and active government. Differences within the SPD erupted this week with a succession of Social Democratic state premiers voicing alarm over the government's redistributive tax plans – by which modest cuts in personal rates would be funded largely by reducing the tax breaks enjoyed by industry.

Wolfgang Clement, premier of North Rhine Westphalia and supposed ally of Mr Schröder, called for extra help for small and mid-size businesses. Gerhard Glogowski, who succeeded Mr Schröder as premier of Lower Saxony, has warned of the impact on the finances of the states, which share tax revenues with the federal government.

It is more than just bluster. If there is no agreement at a meeting Mr Schröder has called with SPD state premiers on December 8, there is a threat of the tax package being disrupted in the Bundesrat, second chamber of parliament, in which the states are represented.

The stand-off has not been helped by the robust stance taken by Oskar Lafontaine, the left-leaning finance minister and architect of the tax reform. Mr Lafontaine has assumed considerable autonomy over wide areas of the government's financial and economic policy but has failed to keep senior party colleagues on side, despite also holding the chairmanship of the SPD.

Tensions created by the SPD's Green party allies have been largely in predictable areas of domestic policy: for instance, over the extent of exemptions for industry from higher energy taxes which the government plans so as to fund cuts in social security contributions. At the same time, Jürgen Trittin, Green environment minister, appears to be on a confrontation course with the energy sector over legislation he is preparing to tighten up safety standards at atomic power stations before a phased withdrawal from nuclear generation.

Lafontaine (right) jokingly bows to Schröder before yesterday's historic cabinet meeting in Berlin AP

But this week's attempt by Joschka Fischer, the Green foreign minister, to persuade Nato allies to adopt a "no first use" strategy for nuclear weapons opened up a weakness where Mr Schröder had seemed secure – the continuity of German foreign policy. Washington's firm rejection of Mr Fischer's ideas spoilt a hitherto smooth performance by the foreign minister, who had devoted considerable efforts to assuring allies he would be no revolutionary in office.

This made for an uncomfortable inaugural trip by Rudolf Scharping, SPD defence minister, to Washington this week. It also added to Mr Schroder's simmering difficulties with foreign allies caused by Mr Lafontaine's ideas on harmonising EU corporate tax rates – which have met stiff resistance in the UK – and on setting target zones for key international currencies.

Mr Schroder's problems have also been of his own making. Most noticeable was his intervention last week in a row over the tax and social security treatment of part-time jobs paying DM620 ($365) a month or less. The chancellor suddenly found that an election pledge to crack down on the increasing exploitation by employers of low-paid workers threatened to cut off a source of income for the least well-off families.

The compromise Mr Schröder himself announced in parliament at first appeared neutral. In future "DM620 jobs" would no longer be liable for tax – but social security contributions would be deducted instead. But it resulted in a tax shortfall for the states, which had not been consulted. The deal might also break constitutional guarantees protecting the welfare system.

In interviews this week Mr Schroder has been almost apologetically self-critical – the chancellor is one of the few German politicians with a self-deprecating humour. After an initial focus on foreign policy in his early days in office, including an exhausting trip to Moscow, there are signs he is now concentrating more on domestic issues.

After his election, Mr Schroder promised caution before speed. Now he has to learn his own lesson.

NEWS DIGEST

CROSS-BORDER MERGERS

German cartel chief calls for new world body

The head of Germany's federal cartel office yesterday called for an international body to regulate big cross-border mergers. Dieter Wolf said existing institutions were inadequately placed to meet the challenges of big cross-border mergers such as the proposed link between Deutsche Bank and Bankers Trust of the US or the recent merger between carmakers Daimler Benz and Chrysler.

Mr Wolf said such mergers were not only too big for national bodies but were "also a size too big for European merger control [authorities]". He said now was the time for discussions about the establishment of a global institution for monitoring of mergers.

Observers see little chance of Mr Wolf's proposals being realised soon. They pointed to a recent impasse in talks about the incorporation of competition policy into the World Trade Organisation as evidence of the difficulties in forging an international set of rules. The European Union and the US already have agreements for the treatment of trans-Atlantic mergers. **Frederick Stüdemann, Bonn**

SWISS FINANCE

50-year domestic bond issued

The Swiss government yesterday signalled its long-term confidence in the future of the Swiss franc by issuing a 50-year domestic government bond. The bond, which carries a 4 per cent coupon, was priced to yield 4.095 per cent.

Peter Thomann, who heads the Swiss government's treasury operations, said yesterday's auction of SFr189m ($136m) of 50-year bonds was part of efforts to widen the maturity of its 21 issues and extend the yield curve. He said it reflected the view that Switzerland's long-term interest rates were at their lowest level ever. The Swiss government last issued 50-year bonds in 1909 on a coupon of 3.5 per cent. Although Swiss government debt has grown to more than SFr100bn it remains one of the world's most highly rated borrowers. The bond was targeted at Swiss pension funds and insurance companies required by law to earn a minimum 4 per cent on their funds under management. **William Hall, Zurich**

INFLATION RATES

German inflation at 0.7%

Germany's annual inflation rate remained steady at 0.7 per cent in October according to figures released yesterday by the federal statistics office. But it highlighted the downward pressure on prices with its forecast for November which showed annual inflation of 0.6 per cent.

The latest data is likely to provide further ammunition for Oskar Lafontaine, federal finance minister, in his campaign for looser monetary policy on the grounds the threat of inflation has been banished and that deflation now poses a greater danger.

In Italy, preliminary data on consumer price inflation showed a sharper than expected drop, with the annualised rate falling to 1.5 per cent in the year to November, from 1.7 per cent the previous month. A survey of inflation in Italian towns and cities showed that the month-on-month rise in November looked set to be 0.1 per cent.

Despite the fall in inflation, Antonio Fazio, the Bank of Italy governor, kept the country's discount rate unchanged last night at 4 per cent, but is expected to bring it down to 3.3 per cent, the German repo rate level, before Economic and Monetary Union on January 1.
Frederick Stüdemann, Bonn, and James Blitz, Rome

SWEDISH ECONOMY

1999 GDP to grow at 2.3%

Swedish government forecasters yesterday warned that instability in world markets and sluggish industrial activity would lead to a slowdown in the country's gross domestic product growth next year. The National Institute of Economic Research, which earlier predicted that Swedish GDP would rise by 3.3 per cent in 1999, revised its forecast downwards to 2.3 per cent.

The institute forecast Sweden's current account surplus would fall from 1.9 per cent to 1.4 per cent of GDP next year. Unemployment is expected to shrink from 6.6 per cent to 6.1 per cent. **Tim Burt, Stockholm**

Tokyo banks underestimated risky loans

By Gillian Tett in Tokyo

Japan's Financial Supervisory Agency, the banking watchdog, will reveal next month that the country's largest 19 banks have underestimated their risky loans by up to Y10,000bn ($83bn).

The finding is part of the results of the FSA's inspection of 19 banks, which will pave the way for an injection of public funds of up to Y25,000bn into the banks' capital base.

The results of the inspection, which is almost complete, are likely to encourage more restructuring at the country's weaker banks. In particular, some government officials are now seeking to find a merger partner for the troubled Nippon Credit Bank (NCB), where problem loans are now estimated to be more than Y3,000bn, or 40 per cent of its loan book.

The FSA yesterday claimed that the underestimation of bad loans was not significant compared with the previous estimated total of Y87,000bn of problem loans in the entire financial sector, which includes loans to potentially risky borrowers as well as loans in default. A senior FSA official said: "The level of wrongly classified loans is not high, probably only Y5,000bn to Y10,000bn."

However, the significance of the FSA inspection, which was conducted with the Bank of Japan, is that it uncovered particular reporting problems at three banks that are facing difficulties – Long Term Credit Bank of Japan, Yasuda Trust and NCB. The FSA and the Bank of Japan have refused to comment on individual banks' inspection results but the probe has prompted the government to act. Last month, for example, LTCB was nationalised, and Yasuda Trust announced plans to sell its healthy business lines to Fuji and Dai-Ichi Kangyo, effectively breaking up the group.

Some politicians and officials want to persuade NCB to seek a radical solution to its problems, possibly including nationalisation. This follows an attempt by the government to rescue NCB with an injection of public funds last year.

Hiroshi Kuribayashi, head of research at Barclays Capital, said: "I think NCB's problems are worse than at LTCB. There is very little chance that NCB can survive without an acquisition or bailout scheme."

NCB yesterday refused to comment on the FSA inspection. However, it has pledged to incorporate the FSA results into its own problem-loan estimates next year. Tadashi Umino, spokesman, said: "We want to have better disclosure to win back market confidence."

These estimates will show that next year the bank will hold Y3,200bn in loans to borrowers who are in default, in corporate difficulties or loans which require careful monitoring, Mr Umino said. This represents about 40 per cent of NCB's loans.

NCB insists that the bank will make reserves to cover 76 per cent of these problem loans by next spring.

Ishaq Dar in Islamabad yesterday: his announcement followed months of uncertainty over foreign debt repayments Reuters

Japan's salarymen buckle down under economic gloom

Cynicism is running high about promises to help those facing problems under the 'cheap loans' policy, reports **Gillian Tett**

This weekend Hiroshi, a Japanese salaryman, will be going out to "forage". For as the economy has slumped, Hiroshi's family has recently scaled back their usual, weekly shopping trips and started to buy their food very late on Saturdays and Sundays when the supermarkets offer cheap discounts.

"My monthly net salary of Y300,000 ($2,476) is not enough for my family now," explains Hiroshi, 38, who like many Japanese is far too embarrassed by his plight to let his full name be used. "I was thinking about buying a new television but I won't do that now."

Such sentiment bodes badly for Japan's ailing economy. But what is doubly alarming is that Hiroshi's plight is unlikely to be eased by the government's latest Y24,000bn stimulus package.

For a key factor behind Hiroshi's malaise, and that of up to 1m other Japanese families, is a disastrous "cheap mortgage" policy the government adopted earlier this decade. And although this mortgage tale has received little attention outside Japan, it provides one example of the complexity of the problems that lie behind Japan's consumer gloom.

Hiroshi's tale started back in 1993 when Kiichi Miyazawa, then prime minister but now finance minister, first embarked on another stimulus plan. In an attempt to boost the country's housing sector, he ordered the Housing Loan Corporation (HLC), the biggest government mortgage lender, to offer ultra cheap mortgages.

The HLC duly relaxed its normal credit standards. But it also introduced cheap *yutori* loans, which offered "leisurely" repayment terms. Under these, borrowers who took out a 20-year or 30-year loan could make very low payments for the first five years but much higher ones later on.

The logic behind this was a conviction that the Japanese economy, and household incomes, would soon boom. And Hiroshi took the bait. In 1995, he proudly bought his first ever property for Y28m – a 58 square metre flat on the fifth floor of a housing block surrounded by cabbage and rice fields in Japan's Kanagawa province. Although it takes 1½ hours to commute to his job at an air conditioning manufacturer in Yokohama, by Japanese standards Hiroshi considered himself lucky.

For the first two years Hiroshi easily covered the Y80,000 monthly housing loan repayments out of his twice-yearly bonus, which workers traditionally got from companies as an essential part of their wages.

But this year he received a rude shock. His company indicated that it would cut the bonus next month because sales are sharply down and overtime work, which used to provide essential "top up" income, has also been slashed. Hiroshi cannot pay the mortgage from his Y300,000 monthly salary because this is more than eaten up by household expenses. And in 18 months, the housing payments will surge to Y110,000.

'I was thinking about buying a new television but I won't do that now'

"Of course I knew that the payback period would double, but I never though that overtime would fall to zero," he explains. "When I bought the flat I did not have any money and I didn't know much about bank loans."

Hiroshi says "everyone in this apartment block who bought property then also took out two-step loans". In Japan as a whole an estimated 630,000 other households have also taken out *yutori* loans since 1993 and another 250,000 got similar loans from another scheme.

This means that the issue has serious macroeconomic implications, argues Etsusuke Matsuda of HSBC Securities. Since most "cheap" loans are due to end in 1999 or 2000, he fears this could trigger a slump in housing investment. "It is a time-bomb about to explode," he says, pointing out that this investment accounts for 9 per cent of gross domestic product.

Other analysts are more upbeat, not least because the government is finally now scrambling to act. Its recent stimulus package includes a promise to extend the "cheap loan" part of the *yutori* loans for households which suffer job losses or face "severe" difficulties.

The government is also mulling other steps to boost the housing market: it has promised, for example, to cut the usual mortgage rate on HLC loans from 2.5 per cent to 2 per cent and is considering extending the time that mortgage interest payments can be offset against tax from six to 10 years.

"The government's actions should help quite a lot," concludes Mark Brown, analyst at ING Barings, who predicts housing starts will rebound next fiscal year, after falling 6 per cent in fiscal 1998.

But reversing the damage to consumer psychology will be hard. Most consumer are very confused about the government's plans, not least because the ruling Liberal Democratic party has delayed any final decision until next month. And since the *yutori* problem has already received extensive publicity in the local press, public cynicism about government "promises" runs high.

Additional reporting by Mitsuko Matsutani

Pakistan in accord with IMF on loan

By Farhan Bokhari in Islamabad

Pakistan has agreed a new loan package with International Monetary Fund officials, said Ishaq Dar, finance minister, in the most significant step yet to stave off a looming default on its foreign debt.

Mr Dar said: "This is good news. With the Fund and the [World] Bank there is complete agreement. There is no pending issue and everything stands resolved."

Mr Dar's announcement followed months of uncertainty over the country's ability to continue making repayments on its $42bn foreign debt. This includes about $10bn in onshore foreign currency accounts, frozen in May in anticipation of a run on bank accounts after Pakistan conducted its first nuclear tests. Those tests were followed by punitive western economic sanctions, which included opposing new multilateral loans to the country.

Uncertainty in the wake of the nuclear tests has almost dried up new foreign investments and led to a considerable fall in foreign exchange remittances from Pakistanis living abroad. Washington has since relaxed its stance, allowing the multilateral agencies to resume negotiations on a new loan package.

After formal approval from the Fund's executive board in Washington, Pakistan expects to receive $530m in IMF credit during the current financial year to the end of June.

Government officials said an agreement would span a two to three year period and the total value would be in the range of $1.3bn-$1.5bn. An agreement with the Fund would be the cornerstone financing for a $5.5bn international rescue package that Pakistan is seeking.

The IMF representative in Islamabad said: "Effective implementation of the agreed programme, supported by adequate financing, will pave the way for restoration of confidence and resumption of high and sustainable rates of growth."

Once an IMF agreement is in place, the country hopes to agree loans of about $800m from the World Bank and the Asian Development Bank. Pakistan would also seek more than $4bn in debt rescheduling from the Paris Club of lenders.

Suharto tries to pre-empt probe

By Sander Thoenes in Jakarta

Indonesia's former president Suharto has handed over control of seven of his foundations to the government, a senior official said yesterday, in an apparent attempt to pre-empt an investigation of the sources of his wealth.

Haryono Suyono, minister for welfare and poverty eradication, said Mr Suharto gave up control of seven of 13 charities controlled by him and his family. Mr Suharto appeared to be responding to continued student protests demanding he face trial, and signals from the military and President B.J. Habibie that the government would put more effort into investigating how he gained his fortune.

The value of the 13 foundations was estimated at roughly $500m, although it is unclear how much was lost in the economic crisis.

At least 2,000 students rallied in central Jakarta, yesterday shouting "Suharto should go on trial immediately" as they headed towards the former president's home. Protesters have made almost daily efforts to march on the former president's house and troops have flooded the surrounding area, camping out overnight.

Students earlier this week protested to the attorney-general to complain about the slow pace of his investigation into alleged abuse of power by Mr Suharto, launched shortly after Mr Habibie took office.

The investigation has made little progress so far and separate police probes into specific fraud allegations against his three sons have led to little more than police questioning. Hutomo Mandala Putra, his youngest son, talked to investigators earlier this week about allegations that he obtained government land illegally for two supermarkets in Jakarta.

The People's Consultative Assembly, the highest legislative body, earlier this month ordered a more thorough investigation. Parliamentarians, including members of the Golkar party which Mr Suharto created and controlled for decades, have called for Mr Suharto's house arrest.

This may spark a new wave of attacks on his family's businesses. While Pertamina, the state oil company, quickly cancelled trading contracts with the family, it found it more difficult to axe 10-year contracts with tankers controlled by Mr Hutomo.

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NEWS DIGEST

INDIAN ELECTIONS

Congress looks set to oust BJP in state polls

India's Congress party looks set to sweep out the Bharatiya Janata party (BJP) state governments in both Rajasthan and Delhi, according to exit polls after yesterday's four state assembly elections.

Exit polls showed the outcome in a third critical state, Madhya Pradesh, to be too close to call, with the BJP marginally ahead. Congress looked certain to lose in the smaller north-eastern state of Mizoram.

However, the strong Congress revival in Delhi and Rajasthan, should it be confirmed by results due early next week, would place the eight-month-old BJP-led national government under pressure. If Congress manages to form a government in Madhya Pradesh, analysts have suggested that the slim majority of the BJP and its 18 regional partners could come under pressure.

Although exit polls in India are of variable reliability, last night's exit poll conducted for Doordashan, the national broadcaster, fell broadly in line with pre-election surveys of the four states' 83m voters. **Mark Nicholson, New Delhi**

AUSTRALIAN TELECOMS

Plan to extend price caps

Telstra Corporation, Australia's leading telecommunications company, is to have price caps on a range of its services extended by the Australian government.

Telstra claims that such price caps in the new deregulated telecoms environment are no longer necessary and not in the interests of its private shareholders.

A third of Telstra was sold off by the government a year ago. Frank Blount, chief executive of Telstra, is increasingly critical of the government's stance and wants a clearer distinction made between social policy and competition policy.

But the government, which owns two-thirds of Telstra, is due early next month to extend price caps on billions of dollars worth of services including connections, rentals, local, domestic and international long-distance calls and mobile services. The current caps expire on December 31. **Stephen Wyatt, Sydney**

CAMBODIAN POLITICS

Coalition acts out accord

Cambodia's new national assembly, meeting for the first time since elections in July, chose Prince Norodom Ranariddh for its presidency yesterday, paving the way for his bitter rival, Hun Sen, to assume the premiership formally next week.

Under a complex formula devised by his father, King Norodom Sihanouk, Prince Ranariddh gained his post by agreeing to form a coalition government with Hun Sen, who ousted him from the premiership in a violent coup last year. Mr Hun Sen's Cambodian People's party (CPP) needed the support of Prince Ranariddh's Funcinpec party to form a government after it narrowly won election, whose results were disputed by the opposition.

The formula also includes the creation of a Senate, a new legislative body which will be appointed by the king. Although the Senate's particulars have not yet been agreed, the president of the Senate will be Chea Sim, leader of the CPP.

Cambodia is likely to regain its United Nations seat, which it lost after Mr Hun Sen's coup, once the Senate is constituted, diplomats said. **Ted Bardacke, Bangkok**

Netanyahu postpones trip in push to save coalition

By Judy Dempsey in Jerusalem

Benjamin Netanyahu, Israel's prime minister, and key supporters yesterday postponed trips abroad in an attempt to shore up an increasingly unstable coalition government.

Mr Netanyahu postponed a visit to Switzerland, due yesterday, but still intends to travel to London and Spain.

Ariel Sharon, foreign minister, said he would not attend next Monday's meeting of donors in Washington, convened by President Bill Clinton to discuss a financial aid package as part of the Wye peace accord.

The latest crisis was triggered by last week's cabinet vote in which several ministers abstained or voted against implementing the first of three transfers of land to the Palestinians.

The rebellion by the ministers, including Natan Sharansky, who negotiated the Wye accord, convinced Mr Netanyahu of the need to woo back David Levy, head of Gesher, a small party rooted in the working class, or face the prospect of calling an early election or forming a national unity government with the opposition Labour party.

Mr Levy resigned as foreign minister last January, withdrawing his four-member Gesher faction from the government, leaving Mr Netanyahu with a majority of one in the Knesset.

The prospect of a snap election would scupper implemention of the Wye accord, supposed to be completed by the end of January. Forming a national unity government would be opposed by some of Mr Netanyahu's coalition partners since they would have to give up ministerial posts.

What emerged yesterday was a proposal that Mr Levy be brought back into the government as infrastructure minister, a role which Mr Sharon has continued to fill since his recent promotion to foreign minister.

Mr Levy's return has not been unequivocally welcomed by Likud, Mr Netanyahu's party. Gesher is demanding it be included in Likud's central committee, creating a powerful voting bloc which would also influence Likud's candidates for the next parliamentary elections.

In addition, Mr Levy, who officials said was playing this card for all it was worth, wanted a seat in the "kitchen" or security cabinet and to be involved in the final status negotiations which will deal, among other matters, with the future of Jerusalem, Jewish settlements and Israel's borders.

As infrastructure minister, Mr Levy, who has long supported the working class and unemployed, would make demands on the budget, seeking more spending for housing. Economists were relieved when Mr Netanyahu said he would not give him the finance ministry, held by Yaakov Neeman.

Mr Neeman, under pressure from the coalition for his tough fiscal policies, said yesterday he would step down if it meant creating a broader-based government capable of pursuing peace with the Palestinians.

Opec set to quash attempts to win fresh cut in output

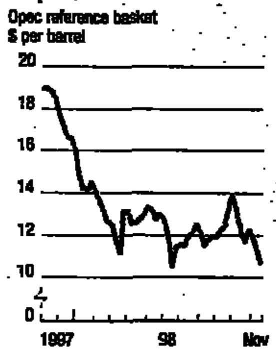
By Robert Corzine in Vienna

The Organisation of Petroleum Exporting Countries (Opec) looked set last night to quash any attempts to orchestrate a new cut in output, despite oil prices wallowing at 12-year lows.

Saudi Arabia, the world's biggest oil producer and exporter, was opposed to new cuts, preferring to see better compliance with Opec's current 2.6m b/d cut before considering new reductions, perhaps in a few months' time. Two of Opec's most economically pressed countries, Iran and Venezuela, are said to each be 300,000 b/d shy of their promised output level.

The main issue is "the question of credibility between ourselves with other oil producers and with the market," said one Gulf Arab delegate last night. Opec oil ministers spent much of the day in informal session. They were due to meet again later last night.

Oil price
Opec reference basket
$ per barrel



Source: OPEC Statistics Dept

Some countries, including other Gulf oil producers such as Kuwait, have argued for a new round of cuts of 1m-1.5m b/d, to bring oversupplied oil markets back into balance. But other delegates argued that without greater compliance, any new cuts would not be credible to the market.

"A 1m b/d cut without credibility might only amount to 300,000-400,000 b/d in the eyes of the market," said one delegate. "We are damned if we do, and damned if we don't. Why do something if it doesn't work?"

Opec members have seen their oil revenues cut by about a third this year, but there was little sense of crisis yesterday.

One suggestion by Algeria, that a summit of Opec heads of state be held early next year, underscored the gravity of the situation facing Opec. Some estimates suggest the total fall in Opec revenues may reach $50bn this year, albeit after two years of above average prices and earnings.

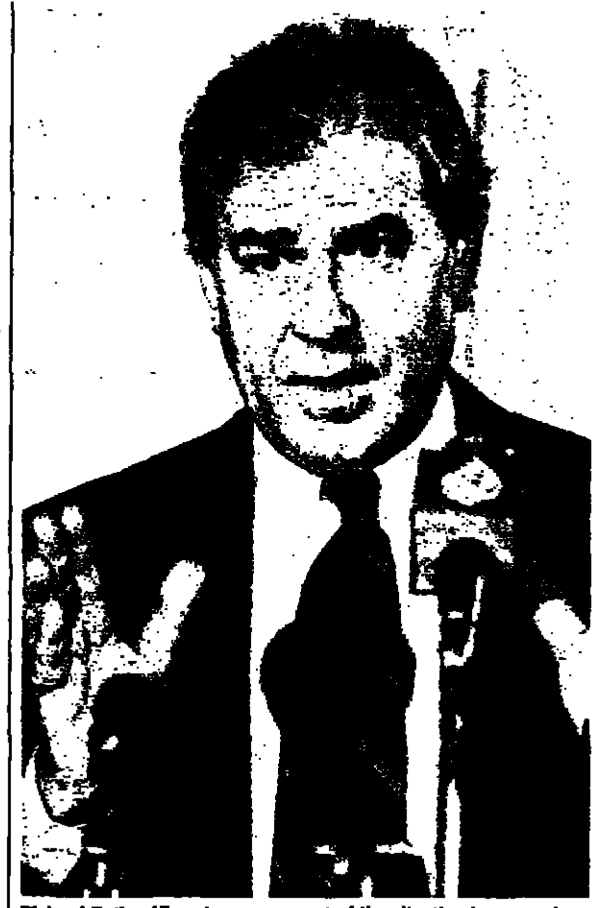
The question facing the group is whether it can buck the global commodity downturn. Other natural raw materials and industrial commodities such as semiconductors are suffering in the aftermath of the Asian crisis.

The fate of the US economy, the world's biggest oil consumer, is vital to the short-term direction of oil prices. A sharp downturn there could more than offset any Opec action.

One attraction of putting off further cuts until early next year is based in part on the fact that it would enable Opec ministers to assess the impact of the northern winter on bulging inventories.

But it is not clear how much financial pressure is being felt by the big Gulf Arab producers, especially Saudi Arabia. Some analysts argue that two years of above average prices have provided at least some financial cushion.

Much of the personal wealth of the ruling families, who have the final say on oil price policy, is held in international stocks. It will not have gone unnoticed that on Monday, when Brent oil futures hit a record low on London's International Petroleum Exchange, the New York Stock Exchange hit a record high.



Richard Butler. His calm assessment of the situation impressed diplomats at the United Nations

Russia stays UN hand on Iraq

By Michael Littlejohns at the United Nations in New York

Russia has vetoed a move by the United Nations Security Council because it feared it might lead to air strikes against Iraq by the US.

The Security Council was proposing a statement demanding Iraqi compliance with a request by weapons inspectors for munitions documents. Russia feared military action would follow if Baghdad refused, diplomats in New York said last night.

British officials voiced satisfaction, however, that a widely expected challenge to policies pursued by Richard Butler, the head of the UN disarmament commission, failed to materialise.

At Tuesday's late night meeting, Sergey Lavrov, Moscow's delegate, was virtually the only critic.

France, which has often joined Russia and China in seeking the earliest possible end to UN sanctions and has not always been happy with Mr Butler, was reported to have expressed "outrage" that so soon after President Saddam Hussein agreed to restore co-operation he was again creating obstacles.

After a flurry of speculation that the US and Britain might resort to their "military option" that was called off at the last minute on November 14, Mr Butler delivered a calm assessment of the situation, diplomats said, causing China's delegate to remark later: "This is no crisis; this is a problem."

After reiterating to the council that more time was needed to test Iraqi intentions, he was assured of the council's full support.

France looks at Africa in a new light

By Robert Graham in Paris

For the 34 heads of state attending the 20th France-Africa summit in Paris tomorrow the motorcades have been cut and the number of bodyguards limited.

Though the cost of the two-day meeting attended by 49 countries is not disclosed it is rumoured France is paying the hotel bill for only the two working nights. Guests are being asked to pay the mini-bar expenses.

The message is clear enough: gone are the days of lavish paternalist entertainment accorded to heads of state in francophone Africa. This change is part of a broader overhaul of policy towards Africa evident over the past 18 months since the arrival of the Socialist-led government of Lionel Jospin.

France is now putting the emphasis on greater transparency in providing aid to avoid corruption. The overseas aid ministry has been merged with the foreign ministry for greater control – previously this arm of government was, in effect, run from the Elysée palace by the president. The move signals an end to the independence of the president in the conduct of African policy.

France is cutting back its military presence in Africa and placing greater emphasis on regional self-help in security matters. As a result, it has had to reassure its traditional allies it is not disengaging but working for a new type of partnership.

At the same time, the promotion of democracy has acquired a higher profile.

Equally important, France has made it clear it wants to correct the historic imbalance between its close ties with French-speaking countries and its poorly developed relations with English and Portuguese-speaking nations. In this context France is offering itself as an alternative international partner to the US both in aid, commerce, investment and security ties.

The summit will thus be the first real showcase for this new policy, even though France's old Africa hands believe the change will take much longer to achieve than officials admit.

English-speaking African countries have accepted invitations for the first time. Nigeria is the most notable absentee. Also, though South Africa will be represented, Paris is still smarting over what was seen as a political decision by Pretoria last week to favour British companies in a series of big defence contracts.

The policy shift has not been to the liking of all African leaders. President Omar Bongo, who has been in power in Gabon since 1967 and a staunch friend of successive French presidents, has decided to stay away. The long-time leader of oil-rich Gabon has taken umbrage at Mr Jospin's inability to find time to receive him on a recent private visit to Paris and was further angered by comments from the Socialist party pointedly calling for a "free and fair" presidential election next month in Gabon. The leaders of Ivory Coast and Togo have also taken exception to Socialist calls for more democracy in their countries.

However, the summit will formalise an important reconciliation between Paris and Laurent Kabila, who led the successful rebellion last year to topple General Mobutu Sese Seko, France's long-time ally in the Congo. On seizing power, Mr Kabila had denounced France and pledged to withdraw Congo from the association of francophone African countries.

His presence in Paris alongside a delegation from the rebels he is fighting and the leaders of rebel-supporters Rwanda and Uganda, offers a chance for talks.

LEGAL IMPLICATIONS 'INTERNATIONAL LAW MAKES CERTAIN TYPES OF CONDUCT UNACCEPTABLE'

Lords' ruling a landmark in human rights law

By John Mason in London

The development of international human rights law since the second world war means General Augusto Pinochet, the former Chilean dictator, cannot claim immunity from the attempt by the Spanish authorities to prosecute him for torture, hostage-taking and murder, the House of Lords ruled yesterday.

By a 3-2 majority, the UK's most senior court overturned a High Court ruling that Gen Pinochet should not be extradited to Spain to face trial because he enjoyed immunity as a former head of state.

The ruling, which will be seen as a international landmark in human rights law, was given before packed press and public galleries in the House of Lords chamber. There was considerable tension as the law lords gave their individual judgments and gasps when the majority verdict was announced.

Giving judgment in favour of the Spanish government, Lord Nicholls said the Vienna Convention and the UK's State Immunity Act 1978 gave immunity to actions which international law recognised as functions of a head of state, irrespective of the terms of any domestic constitution.

"International law does not require the grant of any wider immunity. And it hardly needs saying that torture of his own subjects, or of aliens, would not be regarded by international law as a function of a head of state," he said.

"International law recognises, of course, that the functions of a head of state may include activities which are wrong, even illegal, by the law of his own state or by the laws of other states.

"But international law has made plain that certain types of conduct, including torture and hostage-taking, are not acceptable conduct on the part of anyone. This applies as much to heads of state, or even more so, as it does to everyone else; the contrary conclusion would make a mockery of international law."

The charter of the Nuremberg tribunal affirmed the basic principles in 1946 that no head of state could claim immunity from prosecution if his actions fell outside international law.

"From this time on, no head of state could have been in any doubt about his potential personal liability if he participated in acts regarded by international law as crimes against humanity."

Lord Steyn, also backing Madrid, said the Spanish case alleged General Pinochet had ordered a systematic campaign of repression in which 4,000 people were killed or disappeared.

Citing the Spanish extradition request, he said the Chilean secret police, the Dina, had allegedly tortured victims on a vast scale in secret torture chambers throughout Chile. Torturers were dressed in civilian clothes and hooded doctors were present.

The most usual torture method was "the grill", in which victims were tied naked to a metal table and subjected to electric shocks. Two people, relatives or friends, were placed in metal drawers one on top of the other so that when the one above was tortured the psychological impact was felt by the other.

Lord Steyn said it was alleged that Dina agents rather than Gen Pinochet had committed the actual acts of killing and torture. However, the agents had been directly answerable to General Pinochet rather than to the military junta and had acted on his orders.

He said the High Court had been wrong in saying no line could be drawn between degrees of unacceptable conduct by heads of state. This would mean that when Hitler ordered the "final solution" his act must be regarded as an official act deriving from the exercise of his functions as head of state.

However, the development of international law since the second world war meant a line could be drawn to cover genocide, torture, hostage-taking and crimes against humanity in armed conflict or peace time.

A Pinochet supporter demonstrates outside the Spanish embassy in Santiago earlier this month AP

WHAT COMES NEXT

Hearings could run on into summer

By Robert Rice in London and David White in Madrid

General Augusto Pinochet now faces the prospect of a six-month legal battle to avoid extradition to Spain, where legal experts say he would in any case be unlikely to go to prison.

The spotlight falls first on Jack Straw, UK home secretary, who must now decide whether to authorise extradition proceedings against the 83-year-old general.

Gen Pinochet is bailed to appear at Bow Street magistrates' court in London on December 2, which gives Mr Straw five days to reach his decision. Mr Straw last night requested a postponement, however.

If he authorises extradition proceedings, a date would then have to be set for the extradition hearing proper. Bow Street said the case, which could last up to two weeks, was unlikely to be heard before January.

The magistrate would have to decide only whether the offences for which the extradition is sought by Spain were extradition crimes – any offence punishable by a prison sentence of 12 months or more.

If the magistrate commits the general for extradition, the matter would then pass back to the home secretary, who has the final say.

At that stage however General Pinochet would almost certainly appeal to the High Court, which can free him if it believes extradition would be "unjust or oppressive". Further appeals to the Court of Appeal and House of Lords could take the case back to the UK's highest court by early summer.

If the general is finally extradited, he would be likely to avoid prison irrespective of the outcome of pre-trial proceedings and any court sentence that might ensue.

Spain's penal code provides for the granting of "conditional liberty" to convicted persons "who have reached the age of 70 years or who reach it while serving their sentence". A judge may however curb the convicted person's movements. Gen Pinochet turned 83 yesterday.

The former dictator would be expected to be sent to Spain rather another country such as France and Switzerland, which have also sought extradition, since Spain's request was the first to be lodged and contains the heaviest charges.

UK PREDICAMENT PINOCHET WAS BETE NOIRE OF A GENERATION

A grown-up dilemma for former student politicians

By Andrew Parker, Political Correspondent

For a couple of days last month, Peter Mandelson, UK trade and industry secretary, became the darling of the British Labour party. Mr Mandelson, who is normally loathed by leftwing Labour MPs, was feted for criticising General Augusto Pinochet.

Two days after the former Chilean dictator's arrest in the UK on October 16, Mr Mandelson said most people would find it "gut wrenching" that Gen Pinochet was claiming diplomatic immunity.

His outburst also appeared to lend credence to the misplaced observation of some Labour MPs that Gen Pinochet's arrest at a London hospital gave real meaning to the "ethical" foreign policy of Robin Cook, UK foreign secretary.

Mr Cook had in effect cleared the way for Gen Pinochet's arrest when Foreign Office lawyers told the police that the Chilean's passport did not give him diplomatic immunity.

Officials subsequently said that Mr Cook was delighted with Gen Pinochet's detention.

Gen Pinochet is the *bête noire* of the generation that now forms the UK government.

Ministers such as Mr Cook and Jack Straw, UK home secretary, were either students or putative politicians when Gen Pinochet orchestrated the coup which deposed Salvador Allende's democratically elected Marxist government.

Even Tony Blair, UK prime minister, went on protest marches as Gen Pinochet ruthlessly repressed all dissent to his regime. "When I was a student we all condemned what he did at the time," Mr Blair said last month.

In that context, Mr Mandelson's comments were not surprising. However, his resurrection of undergraduate sentiment underlines how the UK government failed to predict the diplomatic storm which followed the general's arrest.

Baroness Thatcher, former UK prime minister, demanded his immediate release because Chile had assisted her Conservative government during the Falklands conflict.

In Chile itself there were disturbances on the streets, and British defence ministers became concerned because the row threatened arms sales.

Mr Blair's office changed tack, stressing repeatedly that the extradition proceedings were a judicial rather than a political process.

However, Mr Blair's official spokesman only compounded the row by highlighting the UK home secretary's power to reject an extradition request on compassionate grounds.

Yesterday's ruling will extend the diplomatic row, because Mr Straw now has to decide whether to allow the extradition; and British ministers are certain to be privately wringing their hands.

CHILEAN REACTION LEFT QUIETLY PLEASED, RIGHT SHOCKED

Anger and tears follow London broadcast

By Our International Staff

There was shock, rage and tears among General Pinochet's most ardent followers when news of the ruling was relayed, direct from the House of Lords, on Chilean television.

"It's a terrible blow for him, on the day of his birthday," said his son, also Augusto Pinochet, who said he was worried about the impact of the news on his father's health.

"He is being ill-treated in the most unjust way," said retired General Rafael Villarroel. There were shouts of "Let's go and fetch him" from the 200-odd supporters who had gathered at the Fundación Pinochet to hear the judgment. Others spat at and pushed journalists covering the event. Some 70 people set off to demonstrate outside the army academy in Santiago.

The rightwing opposition parties, which formed the backbone of the general's 17-year government, reacted with equal indignation. "What a spectacle – our whole country paralysed at 11 o'clock in the morning, waiting for the judgment of five lords in London!" said Pablo Longueira, the leader of the rightwing Union Democrata Independiente.

But while the Chilean government will appeal against the extradition, President Eduardo Frei said it would not accept any pressure from "groups whose declarations have made a difficult situation even harder" – apparently a reference to threats from the general's most extreme supporters.

As concern grew in Spain yesterday about the danger of anti-Spanish reprisals in Chile, government officials in Madrid were anxious to play down the risk.

Abel Matutes, Spanish foreign minister, said Chile had guaranteed to protect Spanish interests in the country, "starting with the embassy, consulate and companies". Spain has in recent years been Europe's biggest investor in Chile.

For Chile's leftwing parties, the Socialists and the Party for Democracy, which form part of the centre-left coalition government, there was private emotion – hugs and hurrahs at the party headquarters. But in public they are firmly backing the government position.

Outside the UK parliament however, opponents of the general greeted the decision with a rowdy mixture of surprise and jubilation. "I'm completely overwhelmed – we didn't expect this," said Patricia Pizarro Letelier, a distant relative of a former government minister, Orlando Letelier, who was assassinated by Pinochet agents in Washington in 1976.

"We hope now that that the doors of justice have been opened."

Nidia Castro, a political activist who left Chile 22 years ago, said the decision had made her "very happy". She added: "It was a complete surprise. Now, this gives us a good opportunity to really carry forward the process of democracy in Chile. At least now the world can recognise the brutality under which we lived, not only in Chile but right across Latin America."

Meanwhile, outside Grovelands Priory Hospital in north London, where Gen Pinochet is being held, protesters reacted to the news by cheering and cracking open bottles of champagne.

Human Rights Watch, the US-based monitoring organisation, hailed the decision to reject Gen Pinochet's immunity as "a wake-up call to tyrants around the world".

A gathering of human rights activists in Madrid's central Puerta del Sol broke out in applause when the decision came through.

Juan Serraller, president of the Spanish Human Rights Association, commented: "We are beginning a new world in which dictators have no chance of relying on immunity."

Reports by Imogen Mark in Santiago, Mark Mulligan in London, David White in Madrid and Robert Graham in Paris

Slow justice for Microsoft

By Richard Wolffe in Washington

It started with the best of legal intentions – a six-week, fast-track legal solution to the biggest antitrust lawsuit for a generation. But at the end of the sixth week of the Microsoft monopoly trial, the US government is just halfway through its witnesses, and the defence has yet to reply with its own.

Judge Thomas Jackson appears increasingly frustrated and bored with the slow proceedings. His somnolent lapses of attention have become more frequent over the past two weeks as Microsoft has engaged in an almost forensic cross-examination of the first economist to testify in the trial.

The judge had crafted a specially expedited trial to prove that antitrust trials could move as quickly as the software industry. In place of long direct statements, witnesses submit written testimony before going straight into cross-examination by their opponents.

But the industry has proved itself far more nimble than the legal system. Three of the leading companies in the government's case – Netscape Communications, America Online (AOL) and Sun Microsystems – became formal allies this week as part of AOL's $4.2bn purchase of Netscape.

For the government, the deal merely underlines the consistent theme of the trial: Microsoft's monopoly power – based on its ubiquitous Windows operating software – dominates and shapes the entire industry, forcing potential rivals either to submit to its demands or to be taken over.

The evidence from the US Justice Department and 20 states sets out to show a pattern of coercive behaviour by Microsoft against Netscape, AOL, Apple Computer and Intel.

For the US government, the greatest challenge lies less in proving the facts than designing a legal solution to its perceived abuses of Microsoft's market power. Its lawyers have been conspicuously silent about what remedies they would like Judge Jackson to impose on Microsoft, if he finds against the company.

But as this week's industry merger has shown, the pace of change among internet concerns moves so fast that it may be hard for the court to identify solutions which affect Microsoft's rivals.

After all, Netscape, the alleged victim of Microsoft's abuses, will no longer exist as an independent company by the end of the trial.

The only constant target is Microsoft itself, and the increasing temptation for the US government is to design a sweeping solution which substantially reins in – or even restructures – the software giant.

Netscape, Apple and Intel all say Microsoft tried to carve up the market in various forms of software, and used bullying tactics to intimidate them into agreement. AOL's evidence underlines the source of Microsoft's power – its control over Windows – and its ability to offer rivals unparalleled access to personal computer screens across the world.

But Microsoft has been able to punch holes in parts of all these allegations. In particular, it has questioned the credibility of Intel's witness, Steven McGeady, who was presented as a rogue employee of the world's largest chipmaker. Microsoft also managed to undermine the more emotional claims that it "sabotaged" Apple's software.

Microsoft has enjoyed still greater success in questioning the government's two expert witnesses to date. Both Glenn Weadock, a computer consultant, and Frederick Warren-Boulton, an economist, have appeared ill-prepared in defending their underlying data.

But the most explosive evidence has come from Microsoft's own internal e-mails about rivals and potential rivals. Microsoft executives have repeatedly undermined its defence with explicit statements of their intent.

One executive wrote to Mr Gates that his intention was to "establish Microsoft ownership of the Internet client platform for [Windows 95]", which appears to confirm claims that it illegally sought to carve up the market in internet browsers. Several executives who wrote the most damaging e-mails will appear as witnesses for Microsoft early in the new year.

US spending exceeds income again

By Gerard Baker in Washington

Americans' spending exceeded their incomes in October, the second straight month in which the country's aggregate personal sector has reported a negative savings rate, the Commerce Department said yesterday.

Incomes grew by a seasonally adjusted 0.4 per cent last month, while consumption expenditures rose by 0.5 per cent.

The savings rate – the proportion of income saved rather than spent – was minus 0.2 per cent, down from minus 0.1 per cent in September.

Spending has been growing faster than income for most of the last three years, and the savings rate has gradually dwindled.

Negative savings have not been recorded in the US since the Great Depression, but the factors behind today's trend are very different from those that prevailed 60 years ago.

The explosion of stock prices over the last few years has increased Americans' wealth by such large amounts that most feel they can afford to spend from their savings and still have enough set aside to meet their future needs.

Most economists believe this can go on for a limited time only, and expect consumers to pull back from spending in the next year, especially if stock prices fall. But with equities reaching new records, the chances of a significant retrenchment seem to be receding.

BANANA DISPUTE GENEVA TALKS TRY TO HEAD OFF THREAT OF TRADE WAR

EU and US locked in negotiations

By Frances Williams in Geneva

Washington and Brussels were yesterday locked in intensive negotiations at the World Trade Organisation in Geneva in a bid to head off a trade war over bananas.

Charlene Barshefsky, the US trade representative, confirmed in a letter received yesterday by Renato Ruggiero, the WTO director-general, that the US was prepared to ask the original WTO panel to decide whether the European Union's new banana import regime complied with earlier WTO rulings.

However, this was conditional on the review being completed by January 15, permitting the US to adhere to its declared timetable for retaliatory sanctions against the EU early next year. WTO officials have told the US that this date would be feasible, Ms Barshefsky noted.

Brussels says it will only agree to a panel if the US drops its sanctions threat. The two sides were yesterday in private negotiations over the conditions and timing of a reconvened panel.

To reinforce its point, the EU also filed a formal WTO complaint against US action, taken under Section 301 of its domestic trade law, putting in motion preparations for the imposition of sanctions. EU officials said the US was violating WTO rules in announcing its intention under Section 301 to make a unilateral determination on December 15 of whether the EU was in compliance or not.

A final list of EU products on which 100 per cent tariffs will be imposed will also be published on that date.

The US – against the weight of legal opinion – says it does not have to wait for a panel ruling before asking for WTO authorisation to retaliate against the EU on January 21, that is 20 days after the January 1 deadline for the EU to bring its banana arrangements into line with WTO judgments.

Assuming the EU challenged the extent of the retaliation and the issue went to arbitration, the US would impose the sanctions no later than March 3.

The EU claims to have changed its banana import regime in conformity with fair trade rules. However, the US and the five Latin American countries that brought the original WTO complaint maintain that the changes have not altered the basic discrimination against Latin American bananas and US banana distribution companies.

To complicate matters, Ecuador, one of the co-complainants, is itself seeking a reconvened panel decision on the legality of the EU's banana measures, despite pressure from the US not to act independently. Ecuadorean officials said this week that they would prefer the panel to have more time to consider the case than the US timetable would allow.

"For us, it's not a question of a trade war or of systemic implications. It's a question of bananas," said one. Despite import restrictions, Ecuador is the largest supplier of bananas to the EU.

● The US told the WTO's dispute settlement body yesterday that it would comply with a WTO ruling against its ban on imported shrimp from countries whose fishing fleets do not use turtle excluder devices in their shrimp nets.

China set for US export ban soon

By James Kynge in Beijing

China has launched an emergency drive to prepare for a US ban on its exports next month, if they come packed in untreated wooden crates.

An official at the ministry of foreign trade and economic co-operation said that an "emergency letter" has been sent to exporters and trade authorities warning them of the need to obtain certificates showing that the wooden crates have been fumigated and disinfected before shipment.

The ban was announced by Washington in September in an effort to keep the Asian longhorned beetle out of the US. The beetle, which can live in wooden crates, kills trees and has no known predators in America.

After weeks of objecting to the US ban, it now seems China has decided to attempt to meet the December 17 deadline. The US Agriculture Department has estimated that about \$12bn-\$16bn worth of Chinese exports arrive in the US in non-fumigated wooden packing material.

The trade ministry official, who declined to be identified, said that Chinese customs would release freight for export only after being shown a relevant fumigation certificate. The certificate would also have to be produced for US customs.

But the potential for trade disruption remains significant. Many trade officials regard the ban as an ill-disguised strategy to reduce China's trade surplus with the US, which Washington says may reach \$60bn this year.

Even if all Chinese exporters are warned in time, some of the less developed parts of China lack the ability to treat the packing cases to US standards, trade officials said. It is feared that the cost of fumigation may increase the temptation for companies to obtain forged certificates.

Trade relations between the US and China have deteriorated since September this year when David Aaron, US under-secretary of commerce, gave a warning that China's trade surplus was "politically unsustainable" while Beijing persisted in erecting new barriers to trade and investment.

Caspian pipeline project passes crucial milestone

By Robert Corzine

The Caspian Pipeline Consortium (CPC) has passed a critical milestone with the signing in Moscow this week of its first big contract for the 1,500km, \$2.2bn pipeline that will connect Kazakhstan's giant Tengiz oilfield with the Russian Black Sea port of Novorossiysk.

Richard Matzke of Chevron, the US company that operates Tengiz, said the first \$100m pipe order will be followed within a few days by another of similar size.

Contracts for the construction of a new pipeline and marine terminal at Novorossiysk will be awarded early next year.

The final go-ahead for CPC marks the first big direct investment in Russia since the country's financial crisis erupted last summer.

The passage of the project from design to an investment and construction phase also has big implications for the Kazakh economy. The government's medium-term development plans are largely based on future revenues from Tengiz and Karachaganak, another big field in western Kazakhstan.

CPC officials estimate that the total contribution of CPC and Tengiz to the Kazakh and Russian economies over the 25-30-year life of the two projects will be about \$150bn.

Of the \$2.2bn investment, about half will be spent in Russia and Kazakhstan, with the former receiving the lion's share as most of the new pipeline construction will be in Russia.

CPC expects to spend several hundred million dollars in Kazakhstan to rehabilitate an existing line to the border.

CPC, which will have an initial capacity of 600,000 barrels a day, has had a chequered history, with many sceptics wondering whether the politically contentious pipeline would ever be built.

In its early stages, it was the subject of bitter commercial rivalry between Chevron and John Deuss, a Dutch-born oil speculator and pipeline promoter. US diplomatic pressure helped Chevron gain the upper hand, and Mr Deuss eventually withdrew from the project.

Until recently, considerable doubt remained over whether Russia genuinely supported the project, even though Moscow has a 24 per cent stake and two Russian oil companies are involved.

Questions have also been raised about Kazakhstan's commitment, given that most of the transit revenues will go to Russia. However, western promoters of the project argued that it was politically unrealistic to exclude Russia from the project.

Western companies in the consortium will cover the Russian and Kazakh government shares of the \$2.2bn investment. CPC will be financed through equity stakes, with no project finance.

EU seeks views on services talks

By Frances Williams in Geneva

The European Commission has launched unprecedented industry-wide consultations to prepare for the next World Trade Organisation talks on services liberalisation due to start in 2000.

While US trade negotiators are obliged by law to consult the relevant industries, the European Union has never done so before in a systematic way and its new initiative reflects the importance it attaches to the next services talks.

Preparations for another series of global trade negotiations, including those on services, have begun at the WTO in Geneva before a ministerial meeting in the US late next year to set the agenda and timetable. "Everyone starts from the premise that now is going to be the big time for services," says a Brussels-based EU official.

The broad trade rules applying to services were established during the Uruguay round of global negotiations that ended in 1994. But some important sectors were left untouched, others were tackled only partially and many poorer nations made only minimal commitments to open their services sectors to foreign competition.

The Commission, which negotiates in the WTO for all 15 EU member states, has set up an internet-based European Services Network of industry representatives to advise it on liberalisation priorities and opportunities in the coming talks.

The Commission has also established a Services Information System (SIS) to collect data on services directly from industry, in an attempt to plug the gaps in existing information sources. An email form to take part in the SIS data exchange is available on the Commission website:
<www.europa.eu.int>

NEWS DIGEST

PLANT IN EASTERN CAPE

DaimlerChrysler to invest heavily in South Africa

DaimlerChrysler yesterday announced it would invest DM250m (\$147m) in the Mercedes-Benz production plant in South Africa, bringing much-needed foreign direct investment to a country starved of foreign capital.

The announcement comes at a time when the South African motor industry is under pressure because of slack domestic demand and increased foreign competition resulting from trade liberalisation. Toyota, Samcor, which manufactures Mazda, and Nissan are retrenching and cutting their labour forces.Others, including BMW and Volkswagen, are concentrating on export markets.

DaimlerChrysler said the investment would be used to construct a new paint shop and to improve the infrastructure at its plant in the Eastern Cape. In the 10 months to October, almost 8,500 Mercedes-Benz passenger cars were manufactured in South Africa, destined either for the South African market or for export to Australia.

"This investment in South Africa is a signal that the country remains a strategically vital location for our company," said Jürgen Schrempp, chief executive officer of DaimlerChrysler. **Greta Steyn, Johannesburg**

TRANSPORTER VEHICLE

Aerospatiale tops space project

Aerospatiale, the state-owned French aerospace group soon to be merged with the defence interests of Lagardère, the private sector defence and publishing company, has won an Ecu408m (\$473m) contract from the European Space Agency to develop a space transporter vehicle to service the international space station.

As prime contractor under the fixed price contract, Aerospatiale's responsibilities will include system and vehicle engineering, vehicle testing and software development. It leads a team of companies from 10 European countries including Alenia Spazio of Italy, Alcatel Bell Telephone of Belgium, Contraves Space of Switzerland, Dasa of Germany and Matra Marconi Space of France.

The Automated Transfer Vehicle will take cargo to the space station and enable it to correct its orbit to compensate for its regular loss of altitude. It is to be launched by a European Ariane 5 rocket with its first flight planned for 2003. **David Owen, Paris**

CHINESE MANUFACTURERS

Toy makers 'breach code'

Chinese companies manufacturing Christmas toys for the world market are breaching codes of conduct they have agreed to, according to a report published today in London by the Independent World Development Movement.

The authors note that Mattel, the world's largest toy company, introduced a code of conduct with independent monitoring in November 1997, laying down minimum pay, workers' rights and health and safety requirements for the factories contracted to produce its products. However, the report says, 12 months later there are concerns that human rights abuses are continuing in the production facilities of the company's suppliers in China. It calls on Mattel to give a stronger commitment to implement and monitor its code. **Robert Taylor, London**

NORTHERN IRELAND PEACE DEAL

Blair to call on republic to respect unionist aims

By David Wighton and John Murray Brown

Tony Blair, the UK prime minister, will today call on the Republic of Ireland to respect the aspirations of Northern Ireland's pro-British unionist majority. His plea will come in an address to both houses of the republic's parliament.

Mr Blair will acknowledge the widespread desire for a united Ireland south of the border. But he will urge understanding for those who want to remain part of the UK. "Just as we must understand your yearning for a united Ireland, so too must you understand what the best of unionism is all about," he will say.

Aides to Mr Blair in London said last night that it was appropriate for him to "go back to first principles" in the first address by a British prime minster to the republic's parliament.

But Mr Blair's call will also be seen as a response to a recent claim by Bertie Ahern, prime minister of the republic, that there was an "irresistible dynamic" towards a united Ireland. Critics said the comments would make it more difficult for David Trimble, leader of the Ulster Unionist party, the biggest pro-British party in the region, to break the deadlock over implementation of the April peace agreement.

Following talks with party leaders in Belfast yesterday, Mr Blair yesterday expressed confidence that the shadow executive and the proposed cross-border bodies would be established in time for the handing over of power to the new assembly in February. "I hope that over the next few days some proper signs of that progress will be shown," he said after the meeting. "I'm almost absolutely sure that the public out there simply want us to get on with it. They are frustrated with the lack of progress and they want progress to be made.

"I'm going to do everything I can to push it on and keep the momentum going. I'm going to keep on this very hard indeed."

In his speech today, Mr Blair will tell members of the Irish parliament that the overwhelming majority of Northern Ireland unionists are "good and decent people" who want to remain part of the UK.

● *William Hague, leader of the opposition Conservative party, yesterday renewed his pressure on the UK government to end the release of paramilitary prisoners unless the Irish Republican Army began handing over weapons. "It is time the terrorists lived up to the Belfast agreement," he told Conservative MPs in London. "It is time they engaged in substantial and verifiable decommissioning of their guns and bombs."*

Leaders insist arms deadlock is a problem and not a crisis

The UK premier will downplay gloomy talk when he addresses the Irish republic's parliament today, says **John Murray Brown**

Tony Blair will no doubt stress the positive today when he becomes the first British prime minister to address the joint houses of the Irish parliament. But, with disagreement about "decommissioning" of paramilitary arms still holding up the April peace agreement, his comments will be tinged with caution.

No one is talking of the peace deal unravelling. Security chiefs detect no sign the IRA ceasefire is about to break, despite increasingly strident criticism of Gerry Adams and the Sinn Féin leadership.

Mr Blair will be anxious to downplay any suggestion of a crisis.

Arriving in Northern Ireland on Tuesday, he made a point of meeting first the region's UK government ministers, suggesting there was no hurry to sit down with local party leaders. That was in sharp contrast to his intensive shuttle diplomacy to secure the April accord.

The current impasse continues to centre on the insistence of the Ulster Unionists, the biggest pro-British party in the region, that the Irish Republican Army starts to take its guns and explosives out of commission before Sinn Féin, its political wing, takes ministerial seats in the new government. The administration will run Northern Ireland when powers are assumed next February.

The UUP has been able to block progress by refusing to agree the number of ministries. This would trigger the automatic setting up of the executive or government.

David Trimble, UUP leader and first minister in the administration, appears happy to play a long game. He realises it would be difficult to keep his party dissidents in check were he to agree to sit in government with Sinn Féin without a single IRA gun being handed in.

His position has certainly not been helped by comments made by Bertie Ahern, prime minister of the Republic of Ireland, after the conference of the governing Fianna Fail party at the weekend. Mr Ahern said there was an "irresistible dynamic" towards a united Ireland. Mr Trimble's opponents seized on the remarks as evidence of Dublin's real intentions.

Tony Blair found time during his visit to Northern Ireland yesterday for talks with Viktor Klima, the socialist chancellor of Austria (right), about a European Union summit planned for Vienna on December 11. Austria holds the rotating EU presidency AP

Mr Blair could announce aninitiative for the British Irish Council, the one pillar of the April peace accord in the hands of the governments rather than the parties. But this body was largely invented to help Mr Trimble sell the proposals for cross border bodies to his suspicious electorate. Any impression that this aspect of the agreement is being given priority ahead of any other could alienate nationalists.

Mr Blair is instead likely to focus on the modest progress on the setting up of the north-south bodies. The creation of cross-border institutions was once seen by unionists as the first steps towards an all-Ireland government. But in agreeing to move forward in this area Mr Trimble is keen that he should not be blamed for stalling the process.

Differences have been narrowed down to two areas – foreign trade and investment promotion and European policy. Dublin wants to see co-ordination of European aid policy so that regional funds are disbursed by Brussels to the island as a whole.

Unionist negotiators suggest a compromise can probably be worked out on Europe but the area of business promotion is far more contentious.

There is still some negotiating to go. Seamus Mallon, the nationalist deputy first minister, warned yesterday of the dangers in allowing the process to drift. All the parties are used to deadline slippage, and the two protagonists – the UUP and Sinn Féin – are both masters of intransigence.

But Mr Mallon's real concern is one of timing. Mr Trimble is due to leave for Oslo to collect his Nobel Peace prize next week after which he is due to go to the US. If agreement is not reached in the next few days it could be next year before the next piece of the jigsaw is in place.

Biggest trade deficit blamed on Asia crisis

By Christopher Adams, Economics Staff

The UK's trade deficit with the rest of the world has reached a record, official data showed yesterday.

The government blamed the ballooning deficit on the crises in south-east Asian economies.

Economists said sharp falls in exports to region and Russia exacerbated the effects of sterling's recent strength. The pound has risen 20 per cent against a trade-weighted basket of currencies since August 1996.

Most of the deterioration came from falling exports of goods to markets outside the European Union. Excluding oil and erratics, volumes to non-EU countries declined 5.6 per cent in September.

UK exports to south-east Asia were running at about £900m ($1.5bn) last month, nearly a third below average monthly levels last year. Exports to Russia slipped from £50m to £30m compared with average monthly sales in 1997 of £100m.

The UK's visible trade deficit nearly doubled in September, rising from £1.28bn to £2.5bn, the worst monthly balance since records began.

The figures suggest domestic manufacturers, struggling with the strong pound, have found it increasingly difficult to maintain their share of markets elsewhere. Cheaper imports from east Asian producers intensified competition at home.

The deterioration was greater than most City of London economists were expecting. "Trade will be a significant drag on economic growth," said Adam Cole, economist at HSBC. He added that the data would increase pressure on the Bank of England, the UK central bank, to cut interest rates further.

Sterling has fallen back from its peak in March of DM3.10 against the D-Mark to just above DM2.80 yesterday.

Business lobby groups, however, were adamant that the currency would have to fall further.

"It's going to take a long time for this decline to feed through," said Graham Mackenzie, director-general of the Engineering Employers' Federation.

Currencies, Page 27

Annual $25m levy for film industry is scrapped

By Alice Rawsthorn in London

The government yesterday abandoned plans to ask the film industry to contribute to a £15m ($25m) annual fund to finance movie promotion, distribution and training initiatives.

The demise of the All Industry Fund is a blow to Labour, which billed it as a lynchpin in its efforts to sustain the industry's revival and boost creative areas of the economy.

Plans for the fund – most of which would have been spent on cinema promotion – were unveiled this spring.

Chris Smith, chief culture minister, hoped to persuade all companies involved with film in the UK to contribute voluntarily. But broadcasters and the UK subsidiaries of US movie studios refused.

The government hoped to persuade them by commissioning a cost-benefit analysis of the fund's impact. But the culture department's film action committee decided to scrap the fund after seeing a draft version of the analysis yesterday.

Stewart Till, head of PolyGram Film International and co-chair of the committee, said alternative ways of financing the fund's objectives were now being considered.

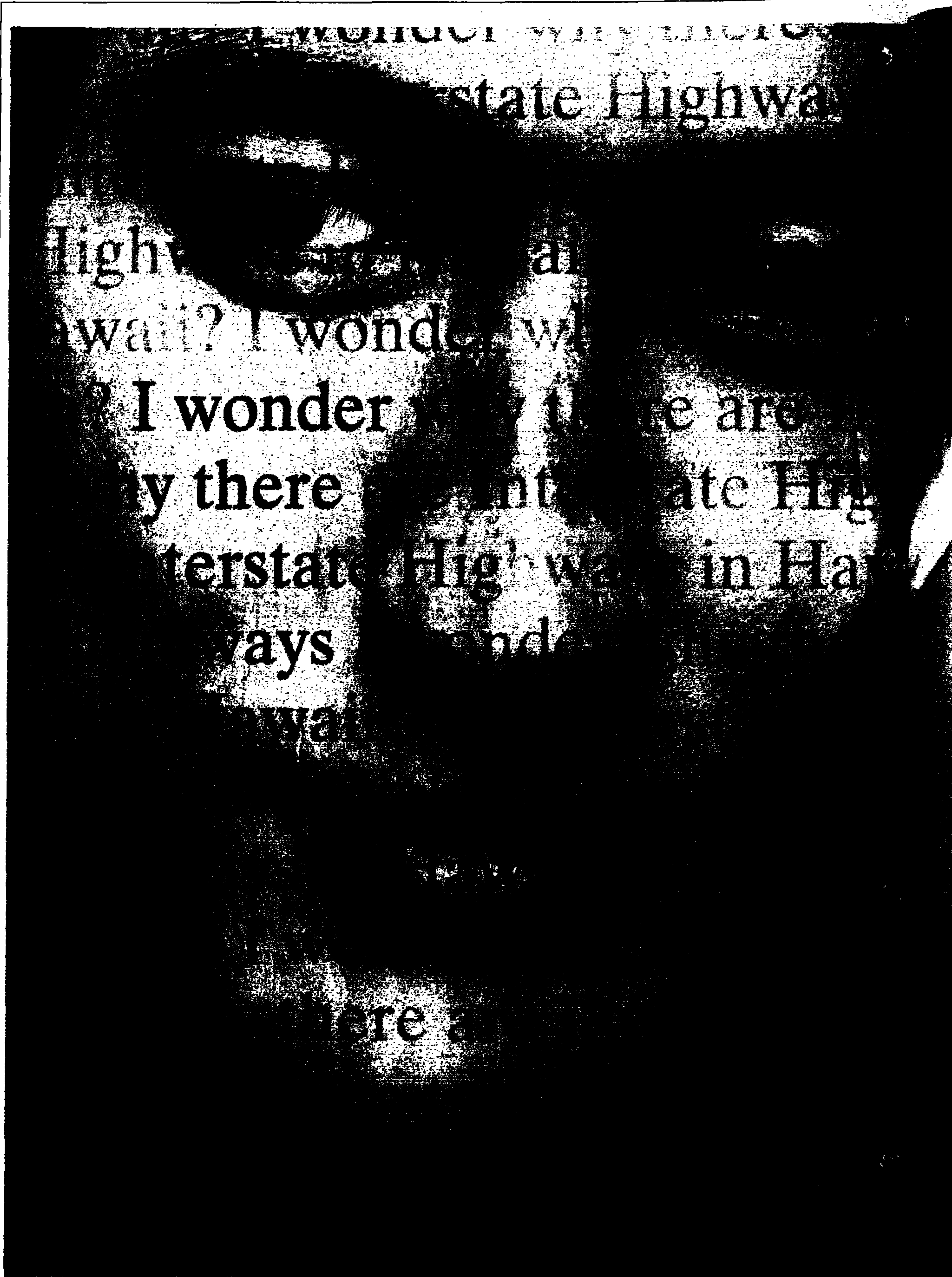
Despite the setback the committee intends to press ahead with proposals for a separate Skills Investment Fund, intended to eradicate skills shortages by making more money available for film industry training.

This will be financed by a ½ per cent levy on the production budgets of all films shot in the UK. Mr Till said plans were "moving along" and he hoped to launch it by next summer.

The government is also pressing ahead with projects to forge closer links between the film sector and the City of London, in the hope of stimulating private sector investment.

It yesterday announced the formation of a Film Finance Forum to include senior financiers – notably Electra's Michael Stoddart and Premila Hoon of Société Générale – and film makers such as Duncan Kenworthy, producer of *Four Weddings and a Funeral*.

The forum will advise the government on fiscal measures to stimulate the film industry.



TELECOMS PRIVATISED GROUP BUYS 50% OF EXCITE'S UK BUSINESS

BT invests $10m in US internet group

By Christopher Price in London

British Telecommunications, the former state utility, yesterday made its boldest move into the internet market by buying 50 per cent of the UK business of Excite, one of the biggest US portal groups. The $10m investment will be used by Excite to expand services and increase marketing.

Excite has previously reached similar agreements with Italian, Japanese and south-east Asian partners to promote regional services. Richard Ridding, vice-president of Excite, said: "Excite does not have the resources to build strong local brands. This agreement with BT will put Excite in a very strong position in the fast growing UK internet market."

He added that Excite was considering expanding into continental Europe, either with BT or local telecoms groups.

BT will use its network to launch Excite as an internet service provider in the UK. Excite.Click will have the same business model as BT.Click and Yahoo.Click, another co-venture announced last month.

These services do not charge for registration – as traditional service providers do – but subscribers pay 1p a minute above the local call rate.

John Swingewood, BT's director of internet and multimedia services, said the investment was aimed at widening BT's internet revenue base, which was reliant largely on subscription. "This is an investment in the next generation of revenues for BT," he said.

Some revenues would come from advertising but BT was keen to invest in developing Excite's electronic commerce services. This will include the sale of BT products from the site.

The deal comes as analysts are saying the UK internet market has reached critical mass and e-commerce is on the verge of a rapid expansion.

Nick Gibson of Durlacher, the UK broker, said BT was paying the equivalent of 20 times historical revenues for its stake in Excite UK. "This is the first time a UK company has paid the sky-high kind of multiples that have been occurring in the US," he said, adding that company records showed Excite UK lost £2.1m after tax last year on revenues of £728,000.

There are an estimated 7m internet users in the UK, double the figure of two years ago.

● The government is to appoint a "digital envoy" to spearhead its drive to make Britain the best environment in which to trade electronically, Peter Mandelson, chief industry ministry announced yesterday, **David Wighton writes.** The announcement follows the government's decision to press ahead with an electronic commerce bill designed to provide a legal framework for internet transactions. The job is modelled on the role played by Ira Magaziner, President Clinton's special representative on electronic commerce.

Murdoch paper aims bilingual taunt at Germany

"Is this the most dangerous man in Europe?" trumpeted the Sun newspaper, Britain's biggest selling daily yesterday, **Deborah Hargreaves writes.**

The slogan was next to a picture of Oskar Lafontaine, Germany's new Social Democratic finance minister. The Sun called him the "biggest threat to the British way of life since 1945."

On page three, where the tabloid, owned by Rupert Murdoch's News Corporation, traditionally prints photographs of topless women, was the front page reprinted in German. The Sun said it was sending its message to Frankfurt, Berlin and Brussels with a special German edition. The newspaper has a circulation of 3.5m.

The Sun says Mr Lafontaine wants to raise taxes in Britain as a way of harmonising taxes throughout Europe. This would mean raising corporation and income taxes and extending valued added tax to many items now exempt, the newspaper claims.

It also lambasts Mr Lafontaine's support for the euro - single European currency - saying he wants to "ABOLISH YOUR pound - by scrapping sterling and bringing in the euro common currency."

The newspaper's tirade against Mr Lafontaine comes the day after Mr Murdoch said his company would expand into television and entertainment across Europe. He said he wanted to attract investment from other media companies for a new European subsidiary.

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NEWS DIGEST

PUBLIC SPENDING

$50m defence computer is dumped without being used

A computer system intended to handle the Ministry of Defence's intelligence data was scrapped without being used at a cost of £34.6m ($57m), the National Audit Office reports today. Installation was delayed for more than two years, the hardware was found to be obsolete and the signals handling equipment was prone to failure. A replacement system cost £6m. The case appears a textbook example of waste which the government aims to eradicate through its "smart procurement" initiative, under which defence ministry purchasing practices are to be radically reformed. The department said it had learned lessons from the IT system's cancellation. Under smart procurement it plans to bring industry into design of equipment at an earlier stage. **Alexander Nicoll, London**

TRADES UNIONS

McKinsey conclusions rejected

The Trades Union Congress has dismissed a recent McKinsey report on UK productivity as "disappointing and unconvincing". It attacks the group's claim that product market and land use regulation are the prime causes of not only UK low productivity but also productivity differences across the industrialised countries. The government has not endorsed McKinsey's conclusions but the Treasury released the report last month, saying it was a significant contribution to the UK productivity debate. The TUC says the lead in productivity is to be found in the EU, not in the US. Over the past 30 years the US has experienced productivity growth at less than half the European rate and it has fallen behind workplace productivity in Belgium, France and the Netherlands. **Robert Taylor, London**

CORRECTION

Fox & Gibbons

A report (FT, October 5) referred to High Court proceedings commenced by the Dubai Aluminium Company Limited against its former auditors and against London solicitor Fox & Gibbons. It is alleged that Fox & Gibbons, former legal adviser to Dubai, breached a duty to inform the company of a number of matters, knowledge of which, it is said, would have enabled it to avoid losses incurred some two or more years later. It is not alleged, as was suggested by our report, that Fox & Gibbons had any involvement in the questionable payments referred to in the writ and said to have been made by Dubai managers and others or in the making of the contracts under which those payments were made. We are happy to make this correction and apologise to Fox & Gibbons for the error.

BEEF EXPORTS

Brussels confirms end of ban

The European Commission yesterday formally adopted as European Union policy a scheme to allow a ban on exports of UK beef to be lifted. The decision by the EU's executive clears the way for Britain to resume exports next year, probably in the spring. Overseas sales were halted 32 months ago because of fears of a link between BSE – mad cow disease – and a fatal disease affecting people. Britain will have to satisfy EU veterinary experts that it is fulfilling the terms of the scheme before exports can resume. The exports scheme was approved by 10 of the EU's 15 farm ministers on Monday. Yesterday's adoption of the scheme by the 20-strong college of commissioners was needed because the ministers' vote fell short of a "qualified majority".

● Retailers yesterday criticised Nick Brown, the agriculture minister, for comments on BBC television that they say suggested supermarkets were abusing their pricing power on meat products. The spat takes on a heightened significance because of a current Office of Fair Trading study and the belief among farmers that as farmgate prices are falling, supermarkets are not passing on the reductions. **Michael Smith in Brussels**

Labour aims to quell nationalist fervour in Scottish Euro-poll

James Buxton reports on today's election for a hotly contested seat in the north-east

The last time the British were invited to vote in a European parliament by-election only 11 per cent went to the polls. The low turnout in the 1996 contest in Merseyside West – in north-west England – haunts party officials on the eve of today's poll in North East Scotland.

The seat has been hotly contested since it was created in 1979, going first to the Conservatives, then to Labour and finally, in 1994, to the Scottish National party, which campaigns for an independent Scotland.

Labour and the SNP are neck and neck in all-Scotland opinion polls in the run-up to the first elections for the Scottish parliament, to be held in May 1999.

The by-election was caused by the death in August of Allan Macartney, the party's popular deputy leader. In 1994 he won North East Scotland by 31,227 votes, the biggest majority in the seat's history. The chances are that Ian Hudghton, the SNP candidate, will win today.

North East Scotland is the heartland of the SNP, which holds three of the 10 House of Commons seats in the European constituency, including that of Alex Salmond, the party leader. The SNP inspires in its supporters a fervour other parties in Scotland lack and it is well organised in its core areas.

Mr Hudghton, 47, ran his family's painting and decorating business at Forfar in the constituency before going into politics. The SNP has largely driven the by-election campaign, he says. "This is London Labour versus Scotland's party."

His Labour opponent is Kathleen Walker Shaw, a 37-year-old official with the GMB trade union in Brussels. She labelled as "racist" the SNP's planned rules for citizenship of an independent Scotland and had to apologise.

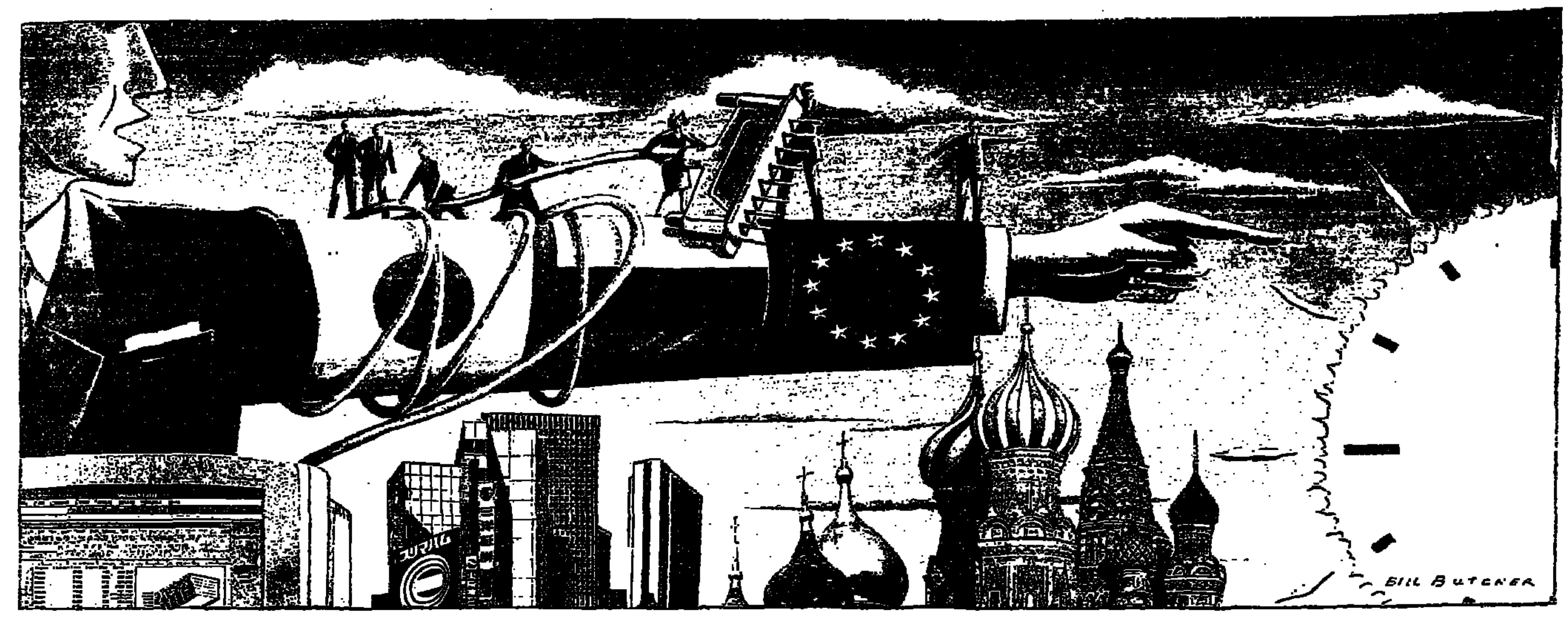
And after telling a reporter she was born in Aberdeen, a newspaper printed her birth certificate showing her place of birth as Staffordshire, England. On Monday she said only that she was conceived in Aberdeen, a city which, with Dundee, is the constituency's main bastion of support for Labour.

The Liberal Democrats are represented by the liveliest candidate of the by-election, Keith Raffan, 49, a journalist who was a Conservative MP in Wales until resigning from the party in 1992. The Conservative candidate is Struan Stevenson, 50, a farmer and a senior party figure who has twice failed to win a seat in the House of Commons.

Labour is playing down its chances of winning, though it believes concerted attacks on the SNP by senior ministers have hit home. Labour will be pleased if it can reduce the SNP majority.

YEAR 2000

A FINANCIAL TIMES GUIDE TO THE MILLENNIUM COMPUTER PROBLEM



Just as well the euro starts in 1999

In Europe, solving the year 2000 problem has taken second place to preparing computer systems for the introduction of a single currency. After all, the euro arrives first. **Alan Cane** reports

Europe is tackling the millennium bomb in patchwork fashion, with big differences in the state of readiness of individual countries.

There is no consensus that the problem is real or as serious as some make it out to be, and no common standards for year 2000 compliance. There is no guarantee that countries or companies that say they are compliant, or on the way to being so, can deliver what they promise.

Supermarket groups, for example, have been alarmed to discover that a high proportion of such basic but vital equipment as chillers and refrigerators, guaranteed year 2000 compliant by their manufacturers, have proved anything but when subjected to test. Some which passed the 2000 date change were unable to deal with 2004, a leap year.

Richard Biddiscombe, UK sales and marketing director for the US computer group Data Dimensions, which has been working on the year 2000 problem since 1991, says: "There is still a lot of denial (of the severity of the problem.)" Furthermore work to convert business systems on the mainland to deal with European monetary union has taken precedence over the date bomb.

The logic was impeccable: monetary convergence comes before 2000. Calls for Emu to be delayed until the millennium issue is settled have been ignored.

The difficulty of assessing the problem is compounded by an absence of hard comparative data. The few authoritative studies published so far are far from reassuring. The Organisation for Economic Co-operation and Development, examining the problem in September noted: "While awareness is increasing, the amount of remediation still required is daunting. The problem continues to be underestimated and full-scale actions to address it are only recently beginning in many countries. Preparedness among the health care industries, small business and some parts of government appears to be particularly worrisome."

The year 2000 specialist magazine Millennium Watch, discussing a meeting of year 2000 representatives from the G8 countries reported wearily: "Several of the countries' representatives gave every appearance of not understanding the problem. France, whom most commentators perceive to be doing less than any other European country, was cosily complacent. Italy deflected attention from itself by raising the spectre of major nuclear incidents in eastern Europe.

"Russia simply noted that it could not do much without money from somewhere. No action seems to have been proposed other than possible international co-ordination on the nuclear front."

Cap Gemini, the Paris-based computing services company, which has been surveying the state of readiness of European companies over the past few years is more encouraging. Its most recent report, published this month, says that for the first time, it finds that private and public organisations in the Europe and the US have made real progress.

It estimates Europe's state of readiness overall as 48 per cent – that is the spend to date as a percentage of total estimated spend needed to solve the problem. By comparison, the US is at 61 per cent preparedness. The UK, once reckoned to be the European leader, scored 47 per cent.

Cap Gemini concluded: "This year France and Germany in particular have accelerated their efforts and made sterling progress while the UK and the Netherlands have slipped in comparison."

Companies in the UK are adopting a different strategy to their counterparts in mainland Europe. They are placing for more emphasis on business continuity planning while across Europe 40 per cent of companies have no continuity plans at all.

'Several of the countries' representatives gave every appearance of not understanding the problem'

Almost 85 per cent of UK organisations are planning for some failure of utilities or other essential services while, Cap Gemini says: "Two in ten actively plan to stockpile goods and materials ahead of the millennium."

Computer specialists are concerned that across the board companies and organisations are fixing and testing their systems piecemeal rather than as an integrated whole. And there are alarming, possibly apocryphal, stories that "cowboy" software specialists are introducing as many errors as they are fixing in overhauling systems for the millennium.

In such confusing circumstances and with so little time at hand, contingency planning for business continuity should be top priority for European businesses.

The continent's telephones, however, should continue to ring. There have been concerns that the bomb will affect telecoms systems in unexpected ways leading to irritation for customers and loss of revenue and credibility for operators. A recent study by Mitel, the telecoms manufacturer, for example, suggested that more than a third of UK organisations were unaware of the effect the bomb would have on their systems. The problem is that virtually every function on a private branch exchange is controlled by the date. Furthermore, the world is moving steadily to liberalise telecoms markets with a consequent influx of new operators, each with its own network and switches.

Carlos Winzer, telecoms analyst at Moody's, the global credit research organisation, believes, however, that the operators have mostly got the got the measure of the problem: "At this stage," he says, "we believe the probability of a serious service disruption over any extended period is extremely low."

He adds, however: "Nevertheless, given the number of operators, the limited financial resources available to many of the smaller companies, the economic conditions in emerging markets and the day-to-day challenges faced by new entrants, we can anticipate some operators suffering short-term, mainly administrative disruptions to operations such as billing and order processing."

So telephone users may suffer nothing more serious than a late bill or a delay in line installation. If all European organisations were taking the threat as seriously as the telecoms operators, the alarm bells would not be ringing so insistently.

Tomorrow
Banks, insurers and airlines have most to fear

MILLENNIUM **FACT FILE**

Your questions answered

Q. I run a small business – where do I go for advice if I've done nothing so far?
A. A good starting point 's your computer supplier or manufacturer. Most governments have also set up special year 2000 programmes and some, including the UK government, provide 'action packs' for small businesses.

Many trade organisations have also prepared information packs. For larger organisations, auditors or management consultants can be a good source of information and there is a lot of informaion available on the internet.

All companies should also check with their suppliers to ensure that they have taken steps to become year 2000 compliant. Companies may also find that they are asked by their own customers to certify compliance – in which case a lawyer's advice may be required.

Q. Should I travel on New Year's Eve, 1999 and if so, by which means of transport?
A. Transport operators are likely to be among the most aware of potential year 2000 problems and hopefully will have taken steps to ensure their systems are compliant.

What is less certain is whether other critical services such as air traffic control systems in developing countries, signalling and traffic management systems or local ticketing systems will have been tested.

In general, it should be just as safe to travel on New Year's Eve next year as at any other time, and there is no reason to suppose that any particular form of transport is more or less prone to year 2000 problems.

Q. Should I take the elevator/lift on New Year's Day 2000?
A. If electro-mechanical equipment – or any other equipment containing embedded chips – is still working on New Year's Day the chances are that it will continue to work.

Most systems that are prone to failure because of Year 2000 issues will do so at midnight, or whenever they are next in use.

It's okay. The Chernobyl-type reactors have been checked

The good news is that the former Soviet Union is much less dependent on computers than the west. The bad news is that when it comes to fixing the year 2000 problem, there is a shortage of money, especially for the military, reports **Charles Clover**

"Inside every computer chip there is a little clock. If the clock stops running, the chip stops running. It is like a little bomb," said Serhiy Parashin, leaning forward and drawing little diagrams in his office in Kiev, Ukraine.

"If you are in an airplane when this happens, there is a likelihood that you will crash. If you are in a submarine, you might drown. If you happen to be in a nuclear power plant, we hope that the worst that can happen is that the reactor will simply stop running. But then again, we really don't know what will happen."

Mr Parashin is the former director of a particular nuclear power plant, located in Chernobyl, Ukraine. While Chernobyl was originally scheduled to be shut down by the year 2000, that date seems more and more unrealistic as the Ukrainian and western governments haggle over how the power from Chernobyl will be substituted.

Even if Chernobyl is shut down, dozens of other nuclear reactors across the former Soviet Union work with the 40 per cent of computer systems worldwide that cannot recognise the change of internal clocks from the year 1999 to the year 2000, and will be vulnerable to malfunction from the millennium bomb.

"We need to prepare for when this will happen," he said.

Analysis of the problem is full of "What ifs?" No one will find out the answer to until midnight, December 31, 1999.

Mr Parashin hopes that if the primary system fails at Chernobyl, the reserve diesel generator should start. If that were to fail, hopefully, everything would simply come to a halt.

The worst that can happen, Mr Parashin hopes, is that a large chunk of Ukraine will be blacked out in the middle of winter as the reactors and other power stations temporarily shut down. But then again, anything is possible, as it was one night in 1986, when the reactor failed to stop.

Vitaly Tolstonogov, the current director of the Chernobyl station, said that enough experts were worried about the possible consequences of the millennium bomb on Soviet nuclear reactors that a simulation of the millennium bomb had been performed on a reactor of similar make to the Chernobyl one, an RBMK type, in Armenia. Those tests found the reactor to be safe.

"From our standpoint, the reactor is safe," he said.

Throughout the former Soviet Union, most experts think the millennium bomb will do less damage than elsewhere in the world, if only because the region is less technologically developed and therefore less dependent on computers.

"Compared to the west, where the damage could reach into the trillions of dollars from the failure of computers, the problem here will be on much less of a scale," said Mr Parashin.

Indeed, the damage from information disappearing from computer screens, bank accounts being wiped out, magazine subscriptions not being renewed, and car fuel injection systems failing to work seem tame by comparison to the economic and political upheaval occurring all across the region.

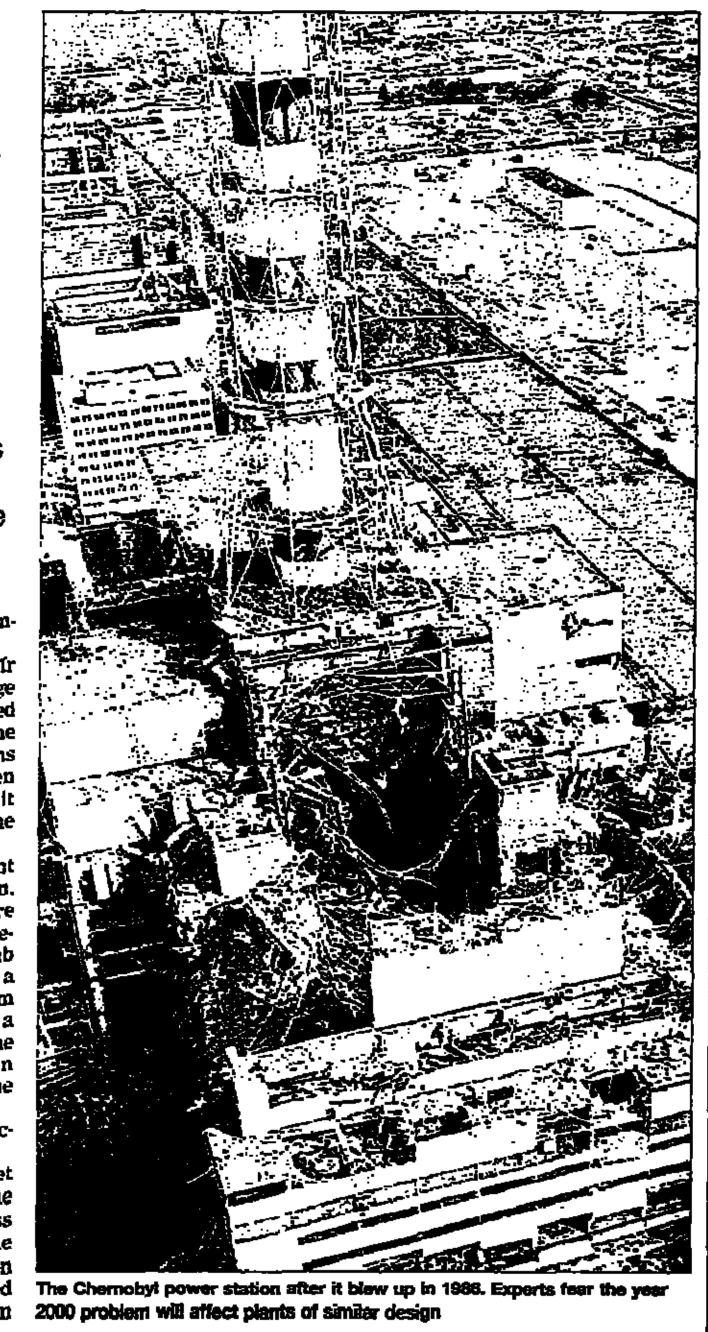
On the other hand, some experts are worried about the danger of the millennium bomb going off in a vast weapons complex left over from Soviet days, in missile silos, nuclear submarines, and jet bombers which have seen very little maintenance in the past seven years.

"What would happen with continuous production processes? Would any dangerous situations arise in chemicals production, in weapons systems?" asked the Bulletin 2000, a Russian language newsletter devoted to spreading information about the possible consequences of the crisis.

According to Bulletin 2000, the US military has spent roughly \$2bn since 1996 to study and solve the problem. But the Russian military, strapped for cash and unable to even pay its soldiers, is unlikely to be spending anywhere near that.

The Russian ministry of defence denied several requests for interviews on the subject of the millennium bomb and its effects on the post-Soviet weapons complex.

"The main danger is that we simply don't know what will happen," said Mr Parashin.



The Chernobyl power station after it blew up in 1986. Experts fear the year 2000 problem will affect plants of similar design

It's year 10 in Japan, and the millennium seems a long way away

With plenty to worry about with the state of its economy, the 'western year 2000 problem' is not at the forefront of Japanese concerns, reports **Alexandra Harney**

Despite having its own calendar based on the lives of its emperors, Japan is no more immune from the millennium computer bomb than the rest of the world.

Its computers use the western calendar, and the outlook is not good.

The country is in its deepest recession in 50 years, the government is paralysed by discord over the financial crisis, corporate profits are at record lows, and report after report declares Japan dangerously unprepared for the year 2000 computer problem.

But there is evidence that the problem is being addressed. And in certain areas, Japan stands to benefit from its economic and cultural differences.

The country, which has one of the lowest internet use rates in the world, has yet to launch the type of frenzied campaign to solve the problem seen in the US.

The government effort is centred on the Western Year 2000 Computer Problem Council. The council's members, representing industry and the administration, have conducted a survey of targeted industries and devised a number of countermeasures.

The results of their study of six sectors – finance, energy, information technology, transport, medicine and mid-size companies – mirror other reports. Out of those sectors, only financial institutions reported total preparedness for potential computer and network glitches that might arise.

An encouraging 78 per cent of power companies and 63 per cent of oil groups surveyed were trying to resolve the problem. But only 27 per cent of airlines and 13 per cent of railway companies reported their preparations complete.

In September, the panel proposed a special budget to fund advertisements to raise public awareness of the problem, and agreed that measures should be taken to dispel Japan's poor international reputation for its response to potential difficulties.

The Ministry of Trade and International Industry has also formed a committee which devised the Y2K Action Plan, a comprehensive set of preventive measures for government agencies and private companies.

The corporate and financial sectors have been much faster to respond, despite the prolonged economic slump. Most banks, and notably all of the government-backed institutions, have made moves to prevent any problems. The record of individual companies is particularly encouraging.

Japan has yet to launch the type of frenzied campaign to solve the year 2000 computer problem seen in the US

Nippon Telegraph and Telephone, the largest telecommunications carrier, is believed to have eliminated most of the potential glitches in its databanks and billing systems when the system was redesigned several years ago.

At the time, NTT spent Y200bn (\$1.6bn) to upgrade its billing system, according to Dresdner Kleinwort Benson. It now spends only about Y5bn a year on year 2000 problems and analysts say while the carrier has not worked every kink out of the system, most big problems have been averted.

Japan Airlines, the country's largest airline, expects to be finished with most of its preparations by next March. JAL, which began an internal survey in 1995, is bringing its computer systems and equipment into line with industry standards, the company said. It also replaced much of its information systems equipment recently – at a cost of only \$8m – and claims to have resolved more than 40 per cent of potential glitches.

Even more encouragingly, Kobe Steel, the troubled steel maker, said it had invested Y1.6bn in an overhaul of its computer network and expected to be completed by April 1999. The group had charged a subsidiary with tackling the problem, and says year 2000 preventive measures are well ahead of schedule.

The strongest initiative for change is clearly from the private sector. Even as sales and earnings collapse – Salomon Smith Barney is predicting a 22 per cent average decline in pre-tax profits this year – banks and larger companies appear to be heading towards a solution.

The surveys present a gloomier picture. A recent study by the Tokyo Stock Exchange showed that only 9 per cent of listed companies believed they had resolved the problem. Nearly 80 per cent said they were working on a solution. Several polls have pointed out that smaller companies are much less prepared.

But in certain ways, Japan's delayed response is perhaps understandable. Unlike in the US, there is little concern about costly lawsuits against suppliers of malfunctioning equipment because there is no tradition of courtroom litigation. The public's attention is focused more on economic problems that are immediately relevant than on a distant technical issue.

This will no doubt change over the next year as anxiety grows about the consequences for a country so dependent on public transport and electrical devices. But there is always hope – in Japan as well as other countries that originally followed a non western calendar – that the crisis will be confined overseas.

After all, the year 2000 is only the 12th year of peace in Japan.

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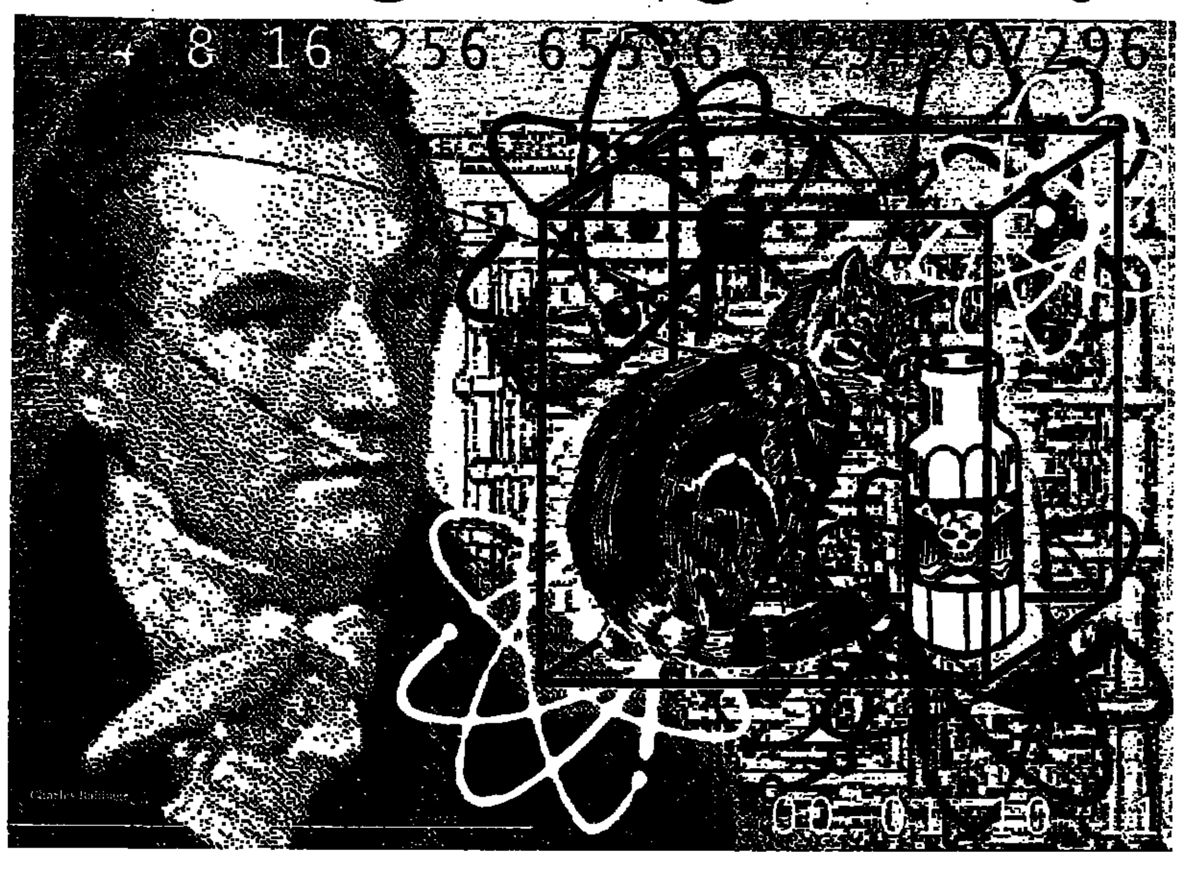
TECHNOLOGY QUANTUM COMPUTING

The next big thing is tiny

Pragmatism and vision might collide in the attempt to create a new generation of computers, writes **Michael Peel**



Charles Babbage has been described as the man who invented the computer 100 years too soon. His plan to build a machine capable of performing any arithmetical operation ended in bitter failure in 1842 when the UK government withdrew its support.

It stopped funding the project on the recommendation of George Biddell Airy, its *de facto* scientific adviser, who thought Babbage's machine was of little practical use. Babbage, Airy said, lived "in a sort of dream as to its utility".

A century and a half later, computing may be about to experience a similar collision between vision and pragmatism. The potential for conflict arises from work on quantum computing, a powerful technique that could form the basis of machines with almost unimaginable processing ability.

Quantum computing has shown enough commercial promise to attract the attention of multinational companies, including International Business Machines, AT&T and British Telecommunications. They think they can use the technology to devise codes that will enable money and confidential information to be moved electronically without fear of eavesdroppers.

"Quantum computing provides methods of cryptography that will be completely secure from attack," says David DiVincenzo, a member of research staff at IBM's Thomas J. Watson research centre.

There are, however, sharp differences of opinion about our ability to put such ideas into practice. While one researcher talks of constructing a substantial quantum machine within 20 years, another complains that it is "really misleading" even to speak about building devices.

That contrast reflects the patchy understanding of a concept that truly represents a quantum theoretical leap from the assumptions of digital computing's pioneers.

Digital computer data are stored via switches which act as binary processors – which can express one of two pieces of information, depending on whether it is set to "on" or "off". A series of three switches can therefore represent eight – two cubed – possible states.

In a quantum computer, these switches would be replaced by a molecule, or string of molecules, of a single chemical. Information would be represented by subatomic particles such as electrons, which have two "spin states", up and down.

The twist is that electrons can exist in both states at once, allowing them to represent two items of data at the same time. This quantum phenomenon, known as superposition, occurs because electrons are so small that they conform to different physical rules from those followed by large objects.

Superposition means that a series of electrons would give rise to a large number of extra states compared with those accessible to a computer based on switches. While a four-switch system can express only one of 16 combinations at any one time, a four electron set-up could represent all the states simultaneously. A series of 30 quantum molecular bits, or qubits, would allow a machine to perform calculations as fast as the most powerful digital computer, according to Raymond Laflamme, a physicist at the Los Alamos National Laboratory in New Mexico.

The achievements of researchers to date have been modest by comparison. The largest system yet tested contains only three qubits and cannot factorise 15 into five and three.

Nevertheless, Dr Laflamme is confident. "We are showing that it's possible," he says. "And, if it's possible, the sky is the limit."

> **'We are showing that it's possible. And, if it's possible, the sky is the limit'**

Others point to the practical difficulties that arise from the very quantum laws scientists are trying to exploit.

Some experts say these problems are so grave that any quantum computer of more than about 10 qubits would have to be based on different operating techniques from the ones researchers are using today. "It's safe to say that new technology is needed," says Vlatko Vedral of Oxford university's recently opened Centre for Quantum Computation. "This is the element that is completely unpredictable. It could happen tomorrow or it could happen in 20 years' time."

The main issue is that quantum systems are acutely sensitive to the outside world. Almost any interaction with the environment affects the property of superposition, changing the information carried.

To compensate, quantum computers need a built-in system of error detection and correction. There is, though, a further formidable hindrance – according to quantum rules, mere measurement of the information encoded on a particle causes superposition to break down.

This presents researchers with a conundrum that at first appears insoluble: they must detect errors without examining closely what they are supposed to be checking.

It turns out that this can be done, albeit at a cost in efficiency. If the same information is recorded on three qubits instead of one, an error-checker can compare the readings and correct mistakes without taking exact measurements from individual particles. The strategy fails only if there is more than one error in a triplet. The risk of this type of error can be reduced by sending data in a quintet, septet or higher number of qubits.

The drawback to this approach is the complexity it adds to the qubit network. "To do something non-trivial you have got to have the most stupendous number of quantum systems," says Peter Knight, a professor of physics at Imperial College, London.

Prof Knight is worried that some of his colleagues are unrealistic in their assessment of the possibility of building a working quantum appliance. He prefers to concentrate on basic problems researchers are still "miles away" from solving.

Ultimately, it is a question of perspective. Theorists such as Richard Jozsa, a professor of mathematical physics at Plymouth University, prefer to highlight the technique's potential as a tool to help close holes in notions about the behaviour of matter. "Quantum mechanics is a very strange theory that can't be entirely right," he says. "We would really like to see where it breaks down so we can construct the next great physical theory."

Sooner or later, institutions that fund research will have to decide whether quantum computing constitutes a fundamental advance or if it will remain impracticable.

History suggests, however, that even a substantial programme of spending might not help make a decision any easier. Airy drew the wrong conclusions after Babbage's research had consumed what was then an immense £17,500 of government money.

Years later, the pragmatist realised his mistake after seeing one of Babbage's earlier calculating devices. "He saw potential in it that Babbage had not seen," says Doron Swade, author of a forthcoming book on the inventor. "But by then it was too late."

UANTUM BEHAVIOUR

[he cat in a box: alive or dead?

The quantum domain of sub-atomic particles requires a different intellectual approach om the world of humans, everyday objects and anything else larger than about 10,000th of a millimetre, rites *Michael Peel*.

This is illustrated by the ample of Schrödinger's t, the subject of a thought periment devised by win Schrödinger, the Ausian physicist, in 1935.

The unfortunate cat is, pothetically, put in a osed box with a vial of poin primed to be shattered the decay of a radioactive om also placed in the conner. Radioactive decay is quantum process: there is calculable probability, but no certainty, that the sample will decompose within a given period. The only way to know if it has decayed is to analyse it. Otherwise, it exhibits a quantum property known as superposition, and exists in a state that is simultaneously both decayed and not decayed.

The implication is that as long as the container remains closed, the cat must be in a condition that is a combination of life and death. Its state of health is only characterised if someone peeks into the box.

If the quantum argument is clearly nonsensical when applied to the cat, why is it sound when used to describe the behaviour of light, electrons and the bodies that make up atomic nuclei?

It is impossible to give a full answer without using mathematics. The concept of quantum behaviour begins to make more sense, however, if we think about the way we characterise actions by distinguishing between their relationships to the surrounding environment.

A quantum body in a vacuum has no environment with which to interact, meaning that none of its various states are well differentiated with respect to each other. In other words, the particle effectively exists in a condition that is a mixture of all the possible states that would be clearly defined if there was an external environment.

GENETIC RESEARCH NEURODEGENERATIVE DISORDERS

A cure appears on the horizon

Successful treatment for Huntington's Disease may hold the key to curing other disorders, reports **Lisa Vaughan**

The discovery of the cause of Huntington's disease has triggered a torrent of research that is likely to find a therapy or cure for the devastating neurodegenerative disorder in five to 10 years.

And similarities between Huntington's and neurodegenerative conditions including Alzheimer's and Parkinson's diseases mean that a cure for one may hold the key to curing them all.

Molecular biologists Gillian Bates, of London's United Medical and Dental Schools, and Stephen Davies, of University College London, were awarded the biennial Glaxo Wellcome lecture prize this month for their ground-breaking HD research, published last year.

Nancy Wexler, president of the California-based Hereditary Disease Foundation and Higgins Professor of Neuropsychology at New York's Columbia University, called the findings "mind-bogglingly important".

"They have unified a group of the most devastating diseases that affect people besides HD, and have triggered huge amounts of research," says Dr Wexler. "If you can develop a treatment for one, you may have a treatment for these other diseases."

Since discovery of the Huntington's disease gene in 1993, researchers have been trying to uncover how it causes the disorder. Once the gene was isolated, people at risk could be tested for HD. But there is still no cure or therapy.

Huntington's is a progressive neurological disease whose onset usually occurs in middle age. It causes involuntary jerky movements, loss of concentration and memory, depression and mood swings. It kills brain cells, leading to gradual deterioration and finally death. A faulty gene on chromosome 4 contains an extra-long stretch of polyglutamine repeats – a standard protein building block – compared with that of the normal population.

Anyone whose parent has HD has a 50:50 chance of inheriting the gene and developing the condition. About one in 10,000 people have it. The Huntington's Disease Association estimates that the UK has about 8,000 sufferers and some 48,000 at risk.

Many scientists believe the greatest hope for a cure is to uncover the first steps in the pathways of the disease and interrupt them. To learn how HD takes hold, Dr Bates' team put fragments of human HD gene into mice in 1996. The gene makes a protein called huntingtin in humans and mice. The transgenic mice developed tremors and an irregular gait, exhibited sudden shudders, repeatedly groomed themselves and lost weight – similar to human HD sufferers.

> **'Discovering what sets off HD could enable its onset to be delayed beyond a lifetime'**

Dr Davies then studied the brains of the transgenic HD mice. He discovered that in the mice with extra-long polyglutamine repeats similar to those of HD sufferers, part of the abnormal huntingtin protein had moved into the nucleus, the cells' control centre. Using an electron microscope, he saw that the mutant protein had "clumped" into a ball. He later uncovered a forgotten 1979 scientific paper with a photograph of clumped protein in an HD sufferer's brain, identical to the structure in the mouse brain.

In the past year the presence of protein clumps, or aggregates, in human HD brains has been confirmed by US scientists.

Similar protein clumping has now been confirmed in most other neurodegenerative diseases, including Alzheimer's, Parkinson's and prion diseases such as Creutzfeld-Jakob disease, which is linked to BSE or mad cow disease.

Experts now believe a therapy or cure for HD is in sight. "We should have an effective treatment in five to 10 years that will significantly slow the pace of the disease or the onset of symptoms," says Kenneth Fischbeck, director of neurogenetics at the National Institute of Health in Washington DC.

HD is now under attack on several fronts. Using a robotic assay filter system, scientists in Berlin have begun testing chemicals to see if they can stop the protein clumping. Thousands of chemicals can be tested in a day. If one is found that stops the protein clumping, the next step is to try it on mice, then on humans.

Another promising line of inquiry uses fruit flies, whose genes are easy to manipulate. Scientists at the University of Pennsylvania aim to locate genes related to the timing of the onset of HD and those that make HD symptoms more or less severe, then mutate the genes to alter those parameters.

"If you can pin down a gene that makes the disease milder or more severe, it could be a target for drugs," Prof Fischbeck says.

Finding out what sets off HD symptoms could enable scientists to delay the onset of the disease beyond a human lifetime – meaning that someone with the HD gene would never develop symptoms, Dr Bates says.

GROWING BUSINESS VIRTUAL MANUFACTURING

Cutting out the core

Peter Marsh examines how two manufacturers 'outsource' the job itself


Moving with the times: John Entwistle with one of British Turntable's products — Gerry Crowther

The turntables used to display shop goods and machines sold to the textile industry to strengthen cotton may seem to have little in common.

But these products do have one significant feature in common.

They are both manufactured "virtually" – one by a company in Britain set up and run by an accountant-turned-engineer, the other by a Swiss business started by a physicist, who is also still at the helm.

Virtual manufacturing can be a useful technique for accelerating growth businesses because it allows small but entrepreneurial companies to concentrate on the design and marketing of what are sometimes extremely complex products. The job and investment costs of production can be "outsourced" to more specialised companies.

Although virtual manufacturing is frequently regarded as having taken off in the 1980s – personal computer production is the best example – the stories of British Turntable and Xorella of Switzerland underline that the concept is far from new.

British Turntable was started 40 years ago in Bolton, near Manchester, by John Entwistle, an accountant. After being asked by a friend to produce a turntable for a car showroom, he made one in his spare time. Today the company has annual sales of £3m, and employs 30 people, of which 20 are designers or marketing specialists.

The company sells revolving platforms, normally powered by an electric motor and used to carry goods, priced at anywhere between £12 and £500,000. The cheapest display watches in shop windows; the most expensive turn 200 tonne railway locomotives or lorries in confined spaces. "It's a niche market but one where there are a large number of potential customers," says Mr Entwistle. "We try to anticipate their needs and also produce designs for applications no one has thought of."

An example of the latter is a small turntable retailing for £50, which revolves by being pushed manually, and which sells to motorcycle owners who use it to turn their machines in their back yards. The company has also teamed up with TV studios to make 6m diameter revolving "stages", similar to those in theatres, which can be packed into containers and erected quickly.

While the company only exports about 15 per cent of its sales, it buys in components such as gearboxes, motors and fabricated parts from several hundred suppliers worldwide – the key to its ability to offer such a wide range of products, many tailored to specific needs.

Having mapped out the design, the company assembles the machines in three small factories in the Bolton area, with the parts themselves coming from sources including continental Europe and China.

Similar entrepreneurial flair lies behind Xorella, set up in 1971 in Wettingen, near Zurich, by Freddy Wanger, a physicist.

Using his knowledge of thermodynamics, Mr Wanger hit on a way to improve the performance of cotton and other fibres by subjecting the raw material to an atmosphere of steam in giant chambers. Mr Wanger – who like Mr Entwistle owns his company – had to fight to get his ideas accepted.

"The textile industry has been around for centuries; if you come up with something new, no one believes it will work."

But the company has annual sales of SFr20m (£8.6m), only 20 per cent coming from Europe, and Mr Wanger is confident of increasing turnover by 10 per cent annually in the next few years.

While Xorella's sales are spread far wider than British Turntable's – about 60 per cent of last year's revenues came from textile companies in South America, Asia and Africa – it has a similar outsourcing policy.

The company does not even bother with a factory.

'The textile industry has been around for centuries; if you come up with something new, no one believes it will work'

Freddy Wanger
Xorella managing director

Of its 17 employees, 11 are development engineers responsible for coming up with modifications of its machines (which can cost up to SFr2m) and four are installation experts who spend most of their time on customers' premises assembling the systems to Xorella's designs.

The parts for the machines are made almost exclusively by a network of 120 mainly small Swiss companies. "A lot of people say manufacturing doesn't have a future in Switzerland because of the high costs but it's not true," says Mr Wanger.

In accordance with Mr Wanger's "lean" business principles, he does not have a finance director, but does the job himself.

He is also continually looking for new ways to apply his steam-treatment techniques: the latest is to build small "cooking chambers" which could be used in home kitchens to steam-cook meat and vegetables. He is discussing these concepts with domestic appliance companies.

"You won't find my ideas in any text book," he says. "But if you understand physics, a lot of things are possible."

TECHNOLOGY WORTH WATCHING

Faulty genes may be cause of alcoholism

US scientists have linked alcoholism in rats to a genetic mutation, strengthening the case for those who argue that the disease is inherited, *writes Victoria Griffith.* The findings have raised hopes that researchers will one day find a pharmaceutical cure for the disease.

A paper published in the scientific journal Nature by researchers at the University of Washington in Seattle showed that rats with a disabled neuropeptide Y (NPY) gene consumed more alcohol, and were less susceptible to its hypnotic effects, than healthy rats.

The NPY gene regulates signals in the brain and seems to protect organisms against excessive stimulation.

The University of Washington researchers decided to pursue their study after scientists at the University of Indiana noted last year that alcoholic rats tend to display abnormalities on the part of the chromosome where the NPY gene is located. Rats were bred selectively at the University of Indiana to form two groups: those that liked to consume a lot of alcohol and those that prefered to drink just a little.

The latest research bolsters the case for a physical, inherited basis for alcoholism. At one time, environment was thought to be the key factor. Sociologists pointed to family histories of alcoholism but it was difficult to say whether these links were due to the pressures of a troubled home, or an inherited tendency to heavy drinking.

A number of studies in recent years indicate that people may, indeed, be born with a predilection to alcoholism. In 1994, a paper in the American Journal of Psychiatry compared alcoholic rates between fraternal twins (with different genetic make-ups) and identical twins (with nearly identical genetic make-ups). Identical twins were 60 per cent more likely than fraternal twins to be alcoholic if the sibling was also afflicted with the disease, pointing to a strong, if not completely genetic link to the disease.

Unlike the rats at the University of Indiana, the Washington rodents were not divided neatly into two groups. Rather, they comprised a wide spectrum of alcohol preference. The rats liked alcohol more or less, depending on the degree of dysfunction of the NPY gene. The more brain-calming NPY protein the genes produced, the less likely the rats were to drink.

"It suggests that people may have varying degrees of alcoholism," says Todd Thiele, author of the Nature paper.

Todd Thiele, Univ of Washington, US: tel 206 685 1743, fax 206 685 3157, e-mail thiele@u.washington.edu

Glittering prize for researchers

A relatively inexpensive method of dyeing cloth with gold and other precious metals has been developed by biomedical researchers in the US.

The researchers at the Louisiana State University Agricultural Center developed the process by adapting a technique used to attach metallic ions to antibodies for diagnostic tests.

The method involves soaking the fabric in a reagent – such as bleach, ethanol, hydrochloric acid or hydrogen peroxide – in a process that creates sites in the fabric where metallic ions can bond. The fabric is then soaked in a solution of the metal, before being rinsed and dried.

Louisiana State University Agricultural Center: US, tel 2253882263; e-mail rbogren@agctr.lsu.edu

Mine of information

The ability to "mine" large amounts of data is increasingly important in business.

US computer scientists have developed a machine that can sort information three times faster than the previous record, at approximately two-thirds the cost of current techniques. Researchers from the Department of Energy's Sandia National Laboratories and Compaq, the PC company, put together a cluster of 72 computers that could sort a terabyte of data – equivalent to the information contained in 1m large dictionaries – in under 50 minutes.

Sandia National Laboratories: US, tel 5058457078; http://www.sandia.gov/media/sort/htm

Alzheimer's inquiry

A drug known as "super-aspirin" is being investigated as both a painkiller and as a possible means of preventing Alzheimer's disease.

The drug targets an enzyme in the body known as cox-2, which may be at the root of the pain and inflammation associated with disorders such as arthritis. It is possible that it can treat pain more effectively, with fewer side-effects, than existing painkillers.

Scientists at the University of Rochester in the US are also carrying out a study to see if the drug prevents or delays Alzheimer's disease. The research was triggered by the finding that cox-2 is active in the brains of people who have the disease, suggesting it may play a role in the sickness and death of brain cells.

University of Rochester: US, tel 7162757954; http://www.rochester.edu/

Vanessa Houlder

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CINEMA

Sparks fly in two explosive thrillers

Nigel Andrews finds his faith in Hollywood restored


A louche and limber charm: Jennifer Lopez and George Clooney in Steven Soderbergh's 'Out of Sight'

A reader points out that I was three monkeys short of a title in a recent Terry Gilliam review. It was of course *Twelve Monkeys* that the ex-Python made before *Fear And Loathing In Las Vegas* and not "Nine". Mea culpa.

Letter-writers, though, can point one in helpful thought-directions. How many monkeys does it take, and how many typewriters, to bang out the average big-budget American movie thriller? Nine? Twelve? A million?

We just saw *Ronin*; we are still in need of mental repair after *Snake Eyes*; and we never want to be reminded of *Mercury Rising* or *Lethal Weapon IV*. Then along come two thrillers in one week that restore the name of Hollywood.

The Negotiator and *Out Of Sight* prove that good actors make good action thrillers. The first is a truth-based hostage yarn enlivened less by its story – a Chicago police negotiator (Samuel L. Jackson), murder-framed after sniffing out cop corruption, holds four people at gunpoint until a rival force's negotiator (Kevin Spacey) helps rumble the evildoers – than by Messrs J and S strutting their fiery stuff.

The second film, even better, has George Clooney and Jennifer Lopez striking sparks, first in the flammable setting of a car boot, later in beds and gun-battles across north-east America.

At once tightening and revitalising Elmore Leonard's novel, screenwriter Scott Frank and director Steven *sex, lies and videotape* Soderbergh produce an oxymoronic delight: a shaggy dog story with purpose and direction. Clooney's escaped convict and Lopez' comely US marshal fall for each other soon after he takes her hostage (in the car boot) and the film then spends two hours letting each character out on a long leash, though we know they will keep re-converging. Desire is like that. So is her determination, despite all, to see him behind bars.

The movie has a louche and limber charm. Soderbergh even makes use of Tarantino-esque time-restructurings: artful prison flashbacks introduce us to characters who will return for the jewel-heist climax. These include victim Albert Brooks's toupee'd tycoon, Ving Rhames as Clooney's trucksized black sidekick and Steve Zahn's scene-stealing young hoodlum with fuzzy hair and matching brain.

OUT OF SIGHT
Steven Soderbergh

THE NEGOTIATOR
F. Gary Gray

SLUMS OF BEVERLY HILLS
Tamara Jackson

THE WISDOM OF CROCODILES
Po Chih Leong

IF ONLY
Maria Ripoll

VICTORY
Mark Peploe

Meanwhile Clooney and Lopez, even when firing like amorous sparkplugs, keep an ironic, distrustful, funny distance. And no less piquant is the distance between the film's fanciful Florida – even in the sunshine state do prisoners really wear banana-yellow uniforms? – and the succulently *noir* Detroit of its climax.

The Negotiator is so *noir* that you had better see it on the large screen. On the small it will be a black hole occasionally streaked by gunfire. The hero too is *noir*, black actor Samuel L. Jackson, formidably compelling even while combusting by the minute. The murder of an informant friend drives him to take hostage the suspect Internal Affairs boss, who, since he is played by J.T. Walsh, virtually wears the label "Sleazy villain. Please queue up to expose."

Little else here is stereotypical. Writers James DeMonaco and Kevin Fox and director F. Gary Gray play out the plot like long-distance chess. Up in Walsh's top-floor office are the hero and his hostages (including a secretary and two captured cops). Down in the improvised ops-room is negotiator Spacey, purring comfort down the phone or screaming off-message abuse at the intervening FBI.

Spacey and Jackson provide a perfect match in a plot that is the perfect tinder. The white actor is all implosive minimalism: coiled and contained, he acts from the psychic equivalent of the diaphragm. The black actor is all rage, rasp and open wound, but his performance is so well gradated that it builds in subtle stages from *forte* to *fortissimo*.

★

Slums Of Beverly Hills, a first feature by Tamara Jackson, starts at *mezzopiano* and has the courage to stay there. Made on a micro-budget – the starriest name is executive producer Robert Redford, who developed the project at his Sundance workshop – this tale of a dysfunctioning family in Lotusland could have resembled John Waters on a wing and prayer. Jewish teenager Natasha Lynne is passing puberty; cousin Marisa Tomei plies her with sex talk and vibrators; tubby brother auditions for *Guys And Dolls*; and Alan Arkin is the nomadic single dad, humping his brood between "dingbat" apartments (Beverlyspeak for cheap and tacky) while borrowing money from brother Carl Reiner.

Jackson may have used a megaphone from the director's chair but never lends one to the characters. Their self-absorption is understated, scat, funny. Sometimes they soliloquise straight to camera. Sometimes they disappear into a private mental limbo before returning to the wakeful, wonderful world of growing up, growing breasts, going bankrupt, and giving miserly Uncle Carl a sumptuous last comeuppance.

British cinema works in mysterious ways. For months now, in a specially extended silly season, it has plied us with fresh horrors: often films blessed by the European Script Fund, Arts Council or other almsgivers seeking out that special combination of sprawling plot, witless dialogue and Babel cast.

Take *The Wisdom Of Crocodiles* and *If Only*. In the first, Jude Law is a vampire too pretentious to call himself one in a modern-dress tale too archly metaphysical to succeed either as *grand guignol* or character study. In the second, debut writer-director Maria Ripoll uses the same plot as *Sliding Doors* – love's destiny rewound – only to be jammed in a no-exit romantic comedy by the convergence of icky magical realism (Spanish dustmen bringing miracles to Notting Hill) and a love-me Londonism that died, or should have, with *Georgy Girl*.

Then *Victory* appears, one of the best UK films of the year, after three years on the shelf. Are our distributors mad? Or was Mark Peploe's handsome, reverberant film of Joseph Conrad's novel delayed because it might expose the tinny crudity of so much else?

Axiom: Conrad is unfilmable because if you lavish money on the adventure you lose the interiority – there is no money without moguls and few moguls will bankroll moral-psychological maziness – while if you trim your budget and go for the heart and mind you lose the spectacle. So Conrad films end up as either widescreen tripe (*Lord Jim*) or cottage-industry claustrophobia (the recent *Secret Agent*).

Victory is remarkable in beating the problem. Filmed on south-seas location, it looks stunning. And directed by the man who screenwrote *The Passenger* and *The Last Emperor*, it has an acute intelligence verbal and visual.

Peploe even makes the multinational cast work. America's Willem Dafoe, never better, grows a beard and soul for hero Axel Heyst while France's Irène Jacob is introspectively touching as the woman who illuminates that soul and Sam Neill and Rufus Sewell (from NZ and UK) cut brilliant character contours as the baddies breaching Heyst's island. Minor hesitancies early on – a Surabaya filled with over-familiar Euro-cinema relicts (Fassbinder's Irm Hermann, Chabrol's Jean Yanne) – neither spoil the film nor account for its thousand-day delay.

★

Lastly and briefly, a farewell to director Alan Pakula, who died last week. He made two of the most thoughtful movie hits of the 1970s, *Klute* and *All The President's Men*; he probed the Watergate era further with the stylish thriller *The Parallax View*; and he gave a handful of American stars – Hoffman, Redford, Beatty, Jane Fonda – room to show they could act as well as parade charisma.

Love triangle fails to cast its spell


Alastair Muir

No chemistry here: Imogen Stubbs and Douglas Hodge as Emma and Jerry

THEATRE

ALASTAIR MACAULAY

Betrayal
Lyttelton Theatre, London SE1

Like the workings of an uneasy conscience, but equipped with the omniscience of a vengeful God, Harold Pinter, in *Betrayal*, casts his searchlight on to the shadowy turning-points of the history of one adultery. He knows each side of a husband-wife-friend/lover triangle: what husband and wife Robert and Emma say about best friend Jerry; what Emma and lover Jerry say about Robert: what Robert and Jerry say about Emma.

He knows the lies direct, the economies with the truth, the peculiar obsessions, the charming delusions, the haunting memories, the endless ironies, the multiple betrayals; and he tracks them down, moving back into the past. The essential ambiguity of his dramatic method misses no trick, overlooks no sin, leaves no corner dark. Finally, he exposes the worm in the bud, that harmful little first betrayal in a harmless little marital Eden.

Betrayal, an international hit, is celebrating its 20th birthday this month by returning to the theatre of its premiere, the Lyttelton. It has become the most accessible of all Pinter's plays: the Pinter play for those who do not otherwise like Pinter.

It remains fascinating, yet I confess there are aspects of *Betrayal* that I resist; it lacks the features for which I most admire Pinter. Usually, in this playwright, there are moments when the small talk between the characters suddenly falls on our ears like thunderbolts; usually, amid the everyday negotiations of his plays, there are disclosures that evoke pity and terror as surely as in classic tragedy; usually, about his characters (his female characters, above all), there is an inalienable privacy that movingly eludes all efforts to contain or even comprehend it. But not here.

Pinter's dramatic method misses no trick, overlooks no sin, leaves no corner dark

That these points only now seem important must be due to weaknesses in Trevor Nunn's direction of the new National Theatre production. Pinter himself has updated the action by 21 years without helping the play to cast the spell that it has elsewhere. Does *Betrayal* belong in a big auditorium? Even Pinter's rhythm falters here. While there is not one wasted word, the play's underlying dramatic rhythm seems now to plod throughout the first three of its nine scenes.

Suddenly, in scene four, the Lyttelton production jolts into full voltage. This is largely due to Anthony Calf's first-rate account of Robert. From this moment, he takes charge of every scene he is in, and his fastidious, slippery interpretation reveals all the facets of pain and wit that make the play enthralling.

He is, however, isolated. Although Douglas Hodge has become, during the 1990s, a Pinter expert and makes many incidentally telling points along the way, I cannot believe that his Jerry is the literary sophisticate who had once written Robert long letters about Ford Madox Ford and with whom Emma would keep up an affair for five years.

As for Imogen Stubbs, the breathily creamy vocal tone she adopts as Emma never once seems sincere. And her moments of greatest emotional tension (the hands that ostentatiously tremble as she pretends only half to hear what her husband is saying) are mere surface. The chemistry between the three characters does not here ring true.

Too bad that this production – awkwardly accommodated on the wide Lyttelton stage by Es Devlin's designs, clumsily larded by Paul Groothuis with unpersuasive noises off and unhelpfully interleaved with blurry home-video footage by Chris Laing – brings to the surface my reservations about this play. *Betrayal* is nonetheless stronger, tighter, more truthful and more resonant than Trevor Nunn allows us to feel.

INTERNATIONAL

Arts Guide

AMSTERDAM

EXHIBITION
Stedelijk Museum
Tel: 31-20-5732911
www stedelijk.nl
Bill Viola. 25 Year Survey - A Video Journey: major survey of work by the American video artist. Includes more than 15 installations and 20 video tapes, as well as sketches and notes; to Nov 29

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
The Rake's Progress: by Stravinsky. Conducted by Reinbert de Leeuw in a staging by Peter Sellars. Cast includes Donald McIntyre, Thomas Randle and Willard White: Nov 26, 29

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: conducted by Pierre Boulez in the world premiere of Thomas's Orbital Beacons, and in works by Debussy. With the women of the Chicago Symphony Chorus conducted by Duain Wolfe; Nov 27, 28

COLOGNE

OPERA
Oper der Stadt
Tel: 221-221 8400
Die Vögel: first modern staging for Walter Braunfels's opera. Premiered in 1920, it was banned by the Nazis and largely forgotten until a recent recording. This production is conducted by Bruno Weill and staged by David Mouchtar-Samorai; Nov 27, 30

DUSSELDORF

EXHIBITION
Kunstsammlung Nordhein-Westfalen
Tel: 0211-83810
Max Ernst: Sculptures, Houses, Landscapes. An exhibition focusing on the German Surrealist's lesser-known sculptures. Some paintings are displayed too, and the works span Ernst's career between 1913 and 1974; to Nov 28

EDINBURGH

EXHIBITION
Scottish National Portrait Gallery
Tel: 44-131-624 6200
Robin Gillanders: Little Sparta. Photographs of the painter Ian Hamilton Findlay's garden at Dunsyre in the Pentland Hills. Gillanders has been working there since 1993, and the display includes a range of collaborative works - posters, prints and postcards; to Nov 29

HELSINKI

DANCE
Finnish National Ballet
Tel: 358-9-403 021
Giselle: staging by Sylvie Guillem. With sets and costumes by Ramón B Ivars. Conducted by David Garfoth; Nov 26, 28

OPERA
Finnish National Opera
Tel: 358-9-403 021
Anna Bolena: by Donizetti. Conducted by Maurizio Barbacini in a new staging by Jussi Tapola; Nov 27, 30

HUDDERSFIELD

CONCERTS
Huddersfield Contemporary Music Festival
Tel: 44-1484-430 528
● Elliott Carter 90th Birthday Tribute: works by Carter, including the European premiere of his Piano Quintet, performed by the Arditti String Quartet and pianist Ursula Oppens; St. Paul's Hall; Nov 27
● Northern Sinfonia: conducted by Thierry Fischer in Simon Holt's Triptych, and Diana Burrell's Clarinet Concerto. With cello soloist Zoe Martlew and clarinet soloist Robert Plane; Nov 26

LONDON

CONCERT
Royal Festival Hall
Tel: 44-171-960 4242
Estonian Philharmonic Chamber Choir: with the Tallinn Chamber Orchestra. Tonu Kaljuste conducts work by Estonian composers Erkki-Sven Tuur and Arvo Pärt; Nov 26

EXHIBITION
Tate Gallery
Tel: 44-171-887 8000
Turner in the Alps: undertaken in 1802, this was J.M.W.Turner's first visit to continental Europe. The exhibition contains 68 works on paper, revealing the artist's initial impressions of the inspiring landscapes he encountered; to Feb 14

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
Boris Godunov: by Mussorgsky. Conducted by Paul Daniel in a new staging by Francesca Zambello, with sets by Hildegard Bechtler. John Tomlinson sings the title role; Nov 27

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Danish National Radio Symphony Orchestra: conducted by Gennadij Roshdestvenskij in works by Nielsen, Shostakovich, Rachmaninov and Stravinsky. With violin soloist Viktoria Mullova and pianist Viktoria Postnikova; Nov 26
● Kiri Te Kanawa: recital by the soprano, accompanied by pianist Julian Reynolds; Nov 29
● Sabine Meyer: in works for clarinet by Mozart, with the Camerata Academica des Mozarteums Salzburg conducted by Alexander Janiczek, and bassoon soloist Daniele Damiano; Nov 28

NEW YORK

EXHIBITIONS
Pierpont Morgan Library
Tel: 1-212-685 0008
Charles Dickens - A Christmas Carol: the manuscript of Dickens's novel is the centrepiece of this holiday exhibition. Also on view are several other items relating to the work; to Jan 3

Whitney Museum of American Art
Tel: 1-212-3272801
Mark Rothko: major retrospective of the American abstract artist, including loans from Europe and Japan. The 100 works on display encompass all phases of Rothko's career, from the late 1920s to 1970, with an emphasis placed on the so-called Surrealist and Classic periods; to Nov 29

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
● La Traviata: by Verdi. Production by Franco Zeffirelli with a cast including Patricia Racette and Marcelo Alvarez. James Levine is the conductor; Nov 27, 30
● Le Nozze de Figaro: by Mozart. Production by Jonathan Miller, with a cast including Felicity Lott and Barbara Bonney. James Levine conducts; Nov 28

PARIS

CONCERT
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Frans Brüggen in works by Schumann and Mendelssohn. With violin soloist Thomas Zehetmair; Nov 26

EXHIBITION
Espace Electra
Tel: 33-1-4284 2360
Photographic Fictions; to Jan 1

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
www.opera-de-paris.fr
The Merry Widow: by Franz Lehár. Conducted by Armin Jordan and with a cast including Frederica von Stade and Hakan Hagegard; Nov 27

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Haydn, Shostakovich and Brahms; Nov 27, 28

OPERA
San Francisco Opera, War Memorial Opera House
Tel: 1-415-864 3330
www.sfopera.com
Norma: by Bellini. Conducted by Patrick Summers in a staging by Andrew Sinclair. The title role is sung by Carol Vaness; Nov 28

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9999
Tokyo Metropolitan Symphony Orchestra: conducted by Gary Bertini in works by Mozart. With violin soloist Asako Urushihara; Nov 26

■ TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

SAMUEL BRITTAN
ECONOMIC VIEWPOINT

Shock therapy

Sensible ideas for alleviating problems in the working of the euro have been quite unnecessarily put on the shelf

There is likely to be some confusion when the euro is officially launched on January 4. For although the aim is to simplify transactions and increase transparency, the immediate effect will be to add complication. To some people's surprise all the existing currencies will continue to circulate. But in addition the euro will circulate as a virtual currency for quoting some prices and for denominating some bank deposits.

The big simplification for the ordinary person will not come until 2002 when existing national currencies will be exchanged for euros. Even then the benefits will only begin to outweigh the costs when people have got used to the very awkward fractions used for conversion. By comparison, UK decimalisation, the introduction of the "new franc" and German currency unification will all seem like a piece of cake.

Yet it is not these teething troubles which worry analysts. One initial fear was that the European Central Bank would be run by its six-person executive board like a glorified Bundesbank, without any national or democratic accountability. Analysts are now preoccupied by the opposite possibility: that ECB governors, who sit on the bank's council, and who could easily out-vote the executive, are going to meet every fortnight and try to run the whole show as a confederation of existing national central banks.

This would inject into the ECB's operations the slowness of response characteristic of so much of the European Union – which we need like a hole in the head.

At the same time, a gap has appeared in the structure of economic and monetary union. When the Maastricht Treaty was negotiated, monetary policy was envisaged mainly as a matter of setting interest rates. Recent financial pressures have drawn attention to the other main function of a central bank: the "lender of last resort". Central banks can act to prevent problems of individual financial institutions from generating wider financial collapse, but on this, Maastricht is silent.

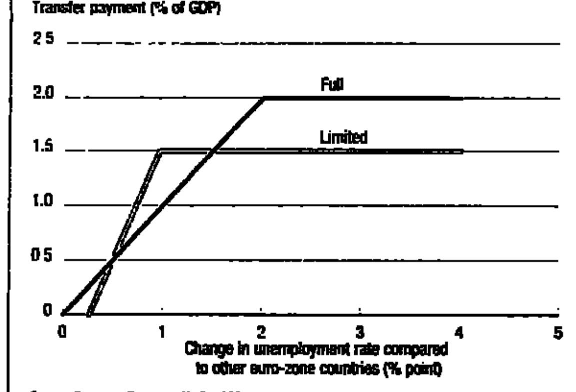
One widely predicted conflict has already occurred. The socialist finance ministers of France and Germany are trying to cajole the ECB into lowering interest rates to promote employment, and have run into a wall of opposition from central bankers of all kinds.

The fashionable fear is that European governments will try to pursue expansionist fiscal policies instead, by stretching the interpretation of the Stability and Growth Pact. The ECB will try to offset this by maintaining high interest rates. If this were to happen, monetary and fiscal policy would then be pushing in opposite directions, and result in high interest rates and an over-valued euro, which would hardly help European employment.

Central bankers are, however, in danger of fighting on the wrong front. Oskar Lafontaine, the German finance minister, rightly says that inflation in the euro-zone has virtually disappeared. So what then would be wrong with a modestly expansionary monetary policy designed to maintain a 3 to 5 per cent annual growth of nominal demand?

The view put forward by Mario Monti, the Italian EU commissioner, and (in modified form) by Gordon Brown, the British chancellor, is that government capital spending – averaging around 2 per cent of gross domestic product – should not count as part of the budget deficit, at least in periods of recession. This view has something going for it. After all, it was German policymakers who invented the principle, calling it "the golden rule". On current projections, it would not lead to a debt explosion.

A euro stabilisation plan
Transfer payment (% of GDP)



Source: European Economy, No 5, 1993

Central bankers ought to be fighting on the front of supply side policies, for under the guise of promoting employment, continental European finance ministers are busily making plans to price workers out of jobs. These finance ministers are trying to reverse even the limited reductions in social overhead costs achieved by their conservative predecessors. And the last thing they want to do is to weaken nationwide collective bargaining. Indeed, Mr Lafontaine has been supporting the metal workers' 6 per cent pay claim on the specious grounds that it will increase purchasing power – a type of argument which the late John Maynard Keynes quite rightly scorned.

But I want to end with a somewhat different problem, which has turned many economists off the whole European monetary project, and which could have been tackled. This is known by the ugly name of "asymmetric" shocks.

In plain words it means that a monetary policy designed to suit average conditions in euro-zone countries will not suit those experiencing unusually strong recessionary or inflationary pressures. It is frequently pointed out that in the US, a large portion of any economic shock experienced by a particular state is offset by automatic federal stabilisers, which increase federal spending in affected states and reduce payment of federal taxes. The EU budget, totalling around 1 per cent of the GDP of member countries, is far too small to play such a role.

A report of experts headed by Sir Donald MacDougall, a British economist, concluded after the earlier attempt at monetary union in the early 1970s that a complete economic and monetary union would require an EU budget of 7½ per cent of the GDP of its members.

Even if the intention was simply to offset differential shocks, the budget would still have to be enlarged to at least 2½ per cent of EU GDP. But the political obstacles to any such expansion of the EU budget have increased since Sir Donald wrote his report.

The same problem was revisited by a group of independent experts set up by the Brussels Commission. They reported in *European Economy No 5, 1993*, but hardly any of their recommendations were followed.

Two other UK economists, Charles Goodhart and Stephen Smith, concluded that the MacDougall analysis was still basically right.

But their colleagues, A. Italianier and M. Vanheukelen, maintained that a degree of stabilisation similar to that existing in the US could be established without a big increase in the EU budget. One reason for this is that the US stabilisation is a by-product of spending and taxes designed for totally different purposes. A tailor-made scheme could be much cheaper.

The EU experts proposed, not an expansion of the EU budget as such, but an insurance arrangement. Countries that experienced an above-average increase in unemployment would receive automatic budgetary contributions, which would be paid for by members experiencing a fall in unemployment or a below-average increase in unemployment.

In the worst possible scenario, the cost of the scheme would amount to 0.75 per cent of EU GDP. But in a trial run of what it would have cost in the 1980s, the cost came only to 0.2 per cent.

Such a scheme would not deal with any European-wide recession which hit member countries to a similar degree. Nor would it be effective against deep-seated structural unemployment.

The authors emphasised they were strictly concerned with demand shocks that are more severe in some countries than others. That is surely better than nothing.

It is sad that the weariness of EU negotiators should allow an important mechanism for alleviating potential problems before they have arisen to be wantonly thrown away.

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LETTERS TO THE EDITOR

Financial services can learn from branding savvy of consumer groups

From Mr Thomas M. Bayne.

Sir, John Authers' article on cross-selling within the financial services industry ("Cross-selling's elusive charms", November 16) implies a number of assumptions about consumer behaviour and competitive strategy that are flawed. To justify a merger or acquisition on the basis of cross-selling opportunities is to base it on a set of assumptions that do not hold in most consumer markets. This might explain why the dream remains largely unrealised as Mr Authers points out.

Consumers, for the most part, do not buy financial services products (the assumption supporting the concept of cross-selling), they buy mortgages, life insurance, pensions, PEPs and savings. In the same way they do not buy haircare products, they buy shampoos, conditioners, gels and hairsprays.

Unilever, Nestlé, Mars and Procter & Gamble understand this very well. This explains why Unilever has the structure it has (separate divisions marketing different products) and why it does not attempt to cross-sell its personal care products through its frozen foods business. Unilever and the others are too smart to fall into this trap.

They all know that any one brand has its own well-defined boundaries and to stray beyond these is to compromise and ultimately undermine the strength of their brands. Strong brands are strong because they always satisfy a particular and specific consumer need. Weak brands try to be all things to all people which is why they remain weak and eventually die. Weak brands are not prepared to make the sacrifices that will make them strong in the future.

This might explain why these companies are among the best marketing organisations in the world and why companies within the financial services industry struggle to create strong brands with global reach.

The solution to cross-selling products and services appears to be in two parts: to create distinct divisions addressing each of the consumer defined markets you want to serve, and within these divisions create brands which are focused on meeting the specific needs of the market sector you wish to serve.

This is a less risky option than the relationship model proposed because it avoids the need for financial services companies to completely redefine their business and change their business competencies.

Thomas M. Bayne,
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London W1P 9AA

Reform of campaign funding needed to make US democracy safe for the world

From Lord Wallace of Saltaire.

Sir, Your editorial assessment ("The risks for world trade" November 23) tiptoes round one of the structural weaknesses in the American political system which spills over into international trade policy: the constant and desperate search for campaign finance in American politics which enables special interests to "buy" congressmen, senators, even presidential candidates.

It remains unclear how far the US administration's approach to the EU's banana regime is driven by a commitment to open world trade; the suspicion that it has, in effect, been "bought" through political contributions by interested companies hangs over the issue. The financial power of the Global Climate Coalition, exercised also through extensive political advertising, has come close to buying American international environmental policy. The influence of US unions is exerted as much through campaign contributions to favoured candidates as through direct influence of voting intentions.

If we are to maintain an equitable and open world trading system, European governments will need to be more robust and more open with the US, calling on it to stand up against particular protectionist interests within its own country. American administrations have drawn up strict rules against bribery and corruption in dealings between multinational companies and foreign governments. The demands of campaign finance seem to be so enormous as to require stricter rules within the US to prevent companies buying political influence. Controls on campaign spending, above all on buying television time, are needed to make American democracy safe for the world.

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Day of judgment

Richard Lapper explains why Pinochet remains so controversial a figure and why the House of Lords' decision has reopened the wounds of Chilean society

The sharply polarised reactions in Chile to the House of Lords' decision to allow extradition hearings against General Augusto Pinochet show how divisive the former dictator continues to be in his home land and abroad.

While the general's supporters, gathered at the *Fundación Pinochet* in Santiago, expressed outrage at the verdict and vowed to "go and fetch him", the families of the 2,000 victims who disappeared or were murdered during the general's 17-year rule called it "a transcendental moment for all of humanity".

General Pinochet was always among the most controversial of all *caudillos*. It was not that his rule was uniquely brutal (indeed, more people died at the hands of Argentina's military dictators), rather, both Chileans and foreigners have found it hard to come to terms with the combination of military brutality and comparative economic success as a result of which he even now retains considerable support in Chile.

There is no middle ground. Gen Pinochet is either the saviour who rescued Chile from the clutches of communism, or the dictator which destroyed the country's long tradition of democracy and tolerance.

"In a real sense Pinochet personalises this era of the dictators," says Peter Hakim, president of Inter-American Dialogue, a Washington-based think-tank. "No one remembers the names of the Brazilian and Uruguayan dictators but Pinochet was a big visible symbolic presence in Chile for 20 years. He is much more than the crimes he committed."

Gen Pinochet was that rare thing: a successful dictator. Elsewhere in Latin America, military rulers relinquished power with their prestige in tatters. The economic record of Brazil's military rulers was tarnished by hyperinflation in the mid-1980s. Argentina's dictators were humiliated by their military defeat in the Falklands war of 1982, and stepped down shortly afterwards.

Pinochet: still dividing Chile

The Chilean military, by contrast, negotiated its departure and retained a strong role within the new framework of democratic government put in place in 1990. Following the 1973 coup, Gen Pinochet introduced economic reforms that ultimately paved the way for the country's rapid growth. Import tariffs were scaled back sharply, exposing industry to foreign competition, large numbers of state-owned enterprises were sold, inflation and government spending came under control.

Chile will move towards the catharsis it has so far been denied, or, more likely, Pinochet's case could trigger a rightwing backlash

By 1990, when Gen Pinochet handed over power to Patricio Aylwin, the president-elect, Chile's economy was held up by politicians, economists and the International Monetary Fund as a model.

These achievements – which followed the economic chaos of the Allende period – helped seal the popularity of Gen Pinochet and the Chilean military among the country's prospering middle classes. So confident was the general of his own popularity, that in 1988 he held a plebiscite on whether he should continue in office for a further eight years. He lost, but 40 per cent of Chileans voted in favour of Gen Pinochet remaining in office.

"If a similar plebiscite had been held in Argentina or Brazil the military wouldn't have got into double digits," says Mr Hakim.

In turn these successes have allowed the Chilean military to retain much greater political influence than their counterparts in neighbouring countries. In Argentina, leading army officers such as former president General Jorge Videla have been imprisoned for their role in the repression in the 1970s. "In Argentina you really did have trials and the military became accountable," says Arturo Valenzuela, director of the Centre for Latin American Studies at Georgetown University in Washington DC.

Only a handful of isolated Chilean military officers have been brought to justice for similar crimes. Uruguayan voters approved an amnesty law for crimes committed after their coup. Chile also an amnesty law – but it was issued by military decree in 1978 and has never been put to the vote.

Senior Chilean officers preserve considerable power in Chile's new democratic institutions. Each branch of the armed forces has the right to nominate a former commander to a seat in Chile's Senate. Four serving military commanders sit on Chile's national security council, equalling the number of civilian members.

Chile's civilian president cannot dismiss any military officer, no matter how junior. Chile's military also retains economic privileges. They receive 10 per cent annually of the sales revenues of Codelco, the huge state-owned copper company.

Analysts say that although Chile's congress and judiciary work relatively well compared to those of other countries in the region, its newspapers and broadcast media have less freedom to investigate.

"They probably have more legal restraints on what might be called full democracy than any other country in Latin America," says Mr Hakim. "There is a fear that they will roll up against the past too closely."

This has all inhibited the extent of Chile's transition from dictatorship to democracy. "The transition was based on the notion that Chile would find the truth in order to get to reconciliation," says Mr Valenzuela. "That truth has not been fully forthcoming."

Mr Valenzuela says that while Chile's centre-left has been prepared to admit its mistakes in the early 1970s and has embraced market-based economic policies, "the military has been unwilling to agree that abuses were made".

Against the background, yesterday's House of Lords' judgment raises the stakes. If Gen Pinochet is extradited and charged, that could pave the way for a reduction in the military's tutelary powers and for the catharsis Chile has so far been denied. But it seems more likely that his case could trigger a rightwing backlash, further deepening the unhealed wounds in Chilean society.

COMMENT & ANALYSIS

FINANCIAL TIMES
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Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Thursday November 26 1998

Targeting exchange rates

Target zones for exchange rates are back on the agenda. Oskar Lafontaine, the new German finance minister, thinks they are essential. Wim Duisenberg, president of the European Central Bank, thinks they are undesirable, to which Alan Greenspan, chairman of the US Federal Reserve, adds that they are infeasible. So who is right? "The central bankers" is the correct answer.

Two arguments can be advanced for trying to manage exchange rates more actively. The more important is that floating exchange rates have proved damagingly unstable and unpredictable. The more immediate is that the arrival of the euro will create a rival to the dollar for the first time for 70 years. The result could then be still greater instability.

Yet arguments for action do not make it either likely or feasible. It is unlikely, because policymakers in the euro-zone will conclude that the exchange rate is not that important to such a large economy – a view the US has long held. Moreover, obtaining a qualified majority for exchange-rate targets in the council of European finance ministers will be very difficult, particularly against the nigh-on certain opposition of the European Central Bank.

More important, however, is the matter of feasibility. It is right to take account of exchange rate movements among what must become the group of three leading monetary areas. Setting up formal target zones is something else.

At any moment, currencies will fall either within the zones or at their limits: the narrower the zones the more often they will hit the limits; the wider they are, the smaller the reduction in instability. When currencies are not at their limits, nothing needs to be done. When they *hit them*, however, mere intervention cannot be relied on to push them back without associated changes in monetary policy. There must also be willingness to change interest rates, to defend the zones.

Whenever such changes are necessary, the authorities must decide whether the weak currency's interest rate is to be raised or the strong one's lowered. Unfortunately, quite often neither will make domestic sense. Historically, the solution has been the designation of an anchor currency (or convertibility into a metal, such as gold). Between two such equal partners as the US and the euro-zone, no anchor will be agreed. The necessary condition for operating the regime is then a shared monetary objective, as Ronald McKinnon of Stanford University has long argued. In effect, there must be a kind of mini-monetary union.

To state this requirement is to indicate its unfeasibility. Informally managed floating, rather than formal target zone commitments, will almost certainly be the best that can be achieved. But such floating can be managed more or less actively. Exchange rates should be taken into account in setting monetary policy – and the global implications intensely discussed. Dialogue between the authorities on both sides of the Atlantic (and with the Japanese) is therefore essential. But a public commitment to formal target zones is a mirage.

Wages of torture

Augusto Pinochet is a bad man. He deserves to be tried for the torture and murders committed by his henchmen while he was dictator of Chile.

That is a moral principle with which most people can agree. But, as a divided judgment by Britain's law lords showed yesterday, the relationship between international law and national jurisdictions is not that simple.

By three to two, the House of Lords (Britain's supreme court) agreed that the general should not be allowed to claim immunity as a former head of state against trial in a European country. That judgment could allow Spain to begin proceedings to extradite General Pinochet from Britain, where he is recovering from an operation. Even so, Jack Straw, the home secretary, has the power to send him home now or at a later stage, to block extradition.

The division among the Lords, and their discussion, show that international law on the subject is far from clear. Heads of state do necessarily enjoy immunity from prosecution in foreign countries. But does that immunity end when they retire? And is it over-ridden by international treaties on torture and hostage-taking?

The Lords' disagreement on these questions raises an issue that needs to be given greater clarity in international treaties. The tide of world opinion has been moving steadily towards the view that some crimes are so heinous that they must be subject to laws and conventions that reach beyond national boundaries. But the means for realising such aspirations remain patchy and imprecise. Perhaps the proposed international criminal court might eventually provide an effective way of dealing with some of those responsible for genocide and torture. But formidable difficulties remain in defining the jurisdiction of that court, not least because the US still refuses to recognise it.

Meanwhile, it would be prudent to interpret international treaties restrictively. Otherwise almost any retired leader might face arrest on trumped-up charges laid by political opponents in a foreign land.

The right place to try Gen Pinochet is in Chile. He was granted immunity there as part of a political settlement: justice was then traded for a return to democracy. But this year, 11 criminal suits have been brought against him. Mr Straw should send him back to face the music.

Going bust

Indonesia's new bankruptcy law, only a few months old, is already falling into disrepute. A number of questionable judgments have left foreign creditors despairing of ever getting any of their money back. And this is just the latest in a string of setbacks in the crisis-hit Asian economies' attempts to resolve their crushing debt overhangs.

The most obvious cause for the collapse of several of the bankruptcy cases brought so far was the lack of experience of judges and lawyers. More ominously, there are also suspicions that the new bankruptcy court has been infected by the same corruption that taints the rest of the Indonesian legal system.

Problems with bankruptcy procedures are shared by the other crisis economies struggling with debt overhangs. Thailand and South Korea. In all three countries, bankruptcy legislation was either absent or ineffective before the crisis struck, and new laws have had to be hurried through, with limited success. In Thailand, for example, a foreclosure law is only now starting its difficult progress through the legislature.

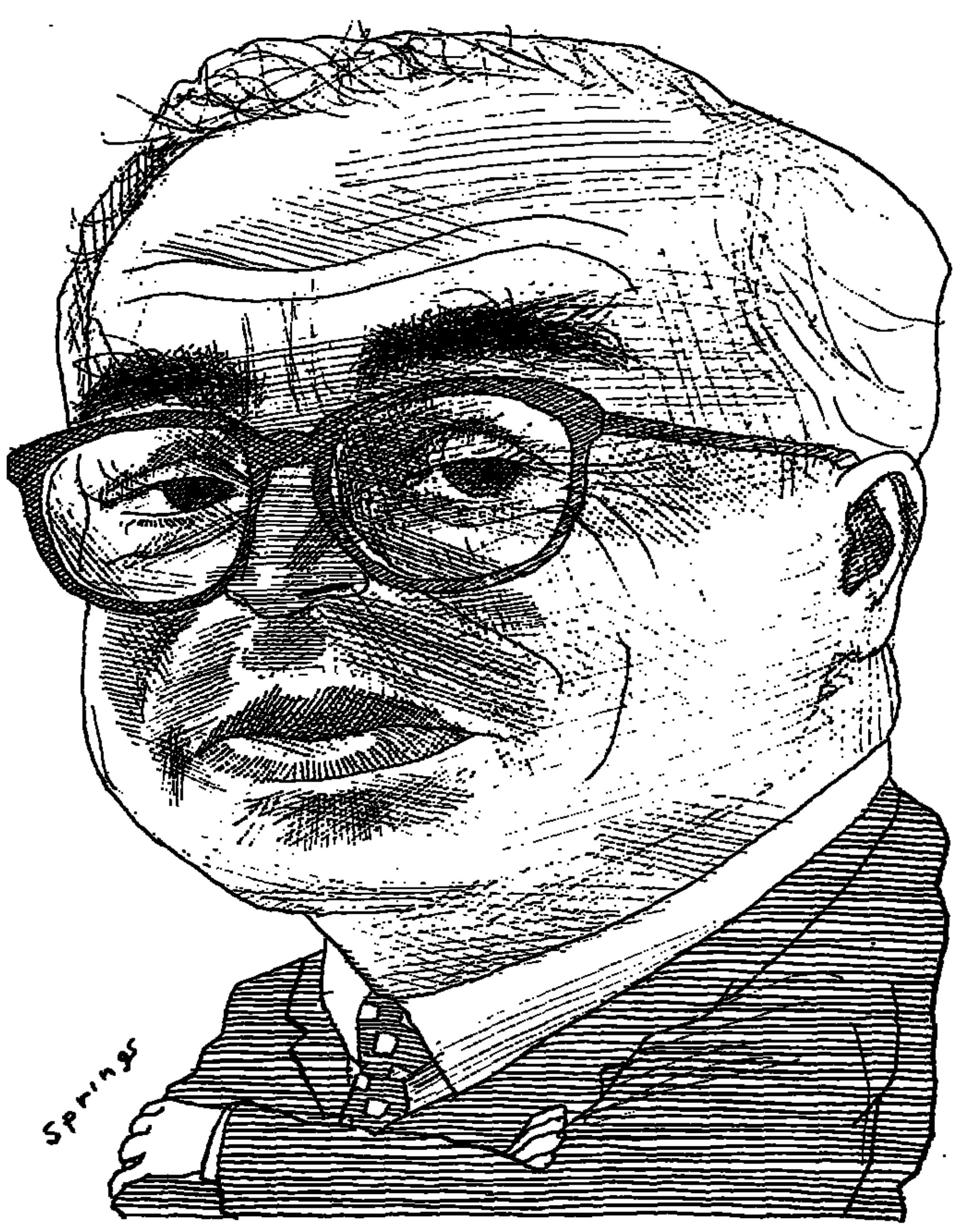
Part of the reason for the sluggishness of developing bankruptcy procedures is a lack of enthusiasm by the east Asian governments themselves, which tend to prefer debt workouts to outright closures. This is partly for historical and cultural reasons: the Asian economic system has relied heavily on relationships between banks, companies and government rather than on strict capitalist principles. And it is partly because of a fear of the social implications of the mass unemployment that would result from widespread closures.

But the lack of credible bankruptcy laws has proved a serious impediment to resolving the debt overhang. Without the threat of foreclosure, companies have little incentive to go to the negotiating table with their creditors and suffer a painful restructuring. The result is often stalemate. In Korea, where creditors do have some power in workout procedures, the problem is less acute than in Thailand or Indonesia. But in all three countries, the debt restructuring process is taking far longer than it should do; until it is complete, there cannot be a full recovery.

The problems that foreign creditors are experiencing in Asia should also serve as a warning to those banks that continue to lend to countries without effective bankruptcy or foreclosure laws in place. Let the lender beware.

Breuer aims for the top

Deutsche is about to become the world's biggest bank. Tony Barber asks how comfortable it will be in this role



In 1947, US occupation authorities in Germany were contemplating whether to shut Deutsche Bank down because of its involvement with Nazi economic policies. Now Deutsche is poised for the biggest breakthrough in its 128-year history as it prepares to complete the $9.7bn purchase of Bankers Trust, the eighth-largest US bank. If approved by regulatory authorities, the deal will create a universal bank with assets of $800bn-$850bn. That is even more than Citigroup of the US. It will also be the most expensive foreign acquisition of a US bank.

It is a moment for which Rolf Breuer, Deutsche's affable and permanently tanned chairman, has been waiting. Deutsche has long been the biggest bank in Europe's biggest economy; it has retail banking operations in Italy and Spain and owns a British merchant bank. But Mr Breuer says Deutsche needs a flourishing international investment bank and a seat at Wall Street's top table if it is to surmount the frustrations of domestic German banking and prosper as a global institution. The purchase of Bankers Trust is Mr Breuer's attempt to turn a large European bank with a medium-sized international division into one of the big league of genuinely global financial institutions.

Yet even German bankers who applaud Mr Breuer's instincts are wondering if his strategy is something of a gamble. It is not just that Bankers Trust has recently been under the cosh, suffering a $488m loss in the third quarter of this year as a result of its exposure to turmoil in the world's emerging markets.

Nor is it that Bankers Trust, though big, seems not quite big enough to thrust Deutsche into the elite league containing US investment banks such as Goldman Sachs and Merrill Lynch (Bankers Trust's market capitalisation was $8.1bn yesterday; Merrill's was $27.7bn.)

In many respects, Deutsche's greatest challenge will lie in the effort to change itself from a conservatively run, continental European institution that specialises in fostering long-term relationships with corporate clients into a more open group that provides for its customers through the international capital markets.

Hilmar Kopper, Mr Breuer's predecessor as chairman, once summed up the bank's traditional activities by saying: "Our intimate relationship with German industry and German companies has been part of our philosophy over the past 100 years. Indeed, Deutsche Bank was founded for that very purpose. We are relationship-oriented. We give a framework within which German companies can work. It is a different system from the Anglo-Saxon one."

This meant, for example, that at the time of Germany's unification in 1990 Deutsche representatives sat on more than 400 company supervisory boards across the economy's entire spectrum, from computers to cement and sugar to steel. The record was held by Deutsche's first postwar chief executive, Hermann Josef Abs, a banker briefly interned by the British. In the 1950s and 1960s, he held 24 supervisory board posts.

Deutsche's influence over industry was wielded through holding stakes in many of Germany's best-known names. A few years ago, it owned 28 per cent of Daimler-Benz, Germany's biggest industrial group, 35 per cent of the Holzmann construction company and 25 per cent of the retail group Karstadt.

Many of its shareholdings have been reduced but even today, the bank still owns about 12 per cent of the newly merged German-American DaimlerChrysler group. According to the rating agency Fitch IBCA, Deutsche has about DM32bn (£11.30bn) in reserves in the form of unrealised gains on equity holdings.

Like other German banks, Deutsche accumulated its blocks of industrial shares in the decades after the second world war partly in order to reap rewards for itself and partly to protect companies under its wing from unwanted takeover bids. This enabled German industry to plan for the long term.

Yet quite what purpose such shareholdings now serve is debatable. "I suppose when they make terrible decisions, they can pull the silver out of the bottom drawer," one banker in Frankfurt said. "But all the German banks will eventually run down their holdings."

Deutsche will not immediately abandon its role as a kindly, rich uncle to German industry. For one thing, it could be hit with a vast tax bill if its sold all its stakes over a short period.

But expansion inside Germany poses a problem for Deutsche and the other big Frankfurt banks, Dresdner Bank and Commerzbank, because the lion's share of credit and deposit business is controlled by public-sector banks that benefit from transfers of state capital and political protection. Today, Deutsche, though the biggest bank by market capitalisation, has less than 5 per cent of the nation's deposits. Compare that with the 12-13 per cent held in the UK by the much smaller Barclays or National Westminster.

Deutsche is still plugging away at its domestic retail banking operations. Its round-the-clock direct banking unit, Bank 24, which is aimed at young and well-off customers, has proved successful. Now Deutsche is drawing up plans to merge Bank 24 with the rest of its retail banking business next autumn.

Yet unless the European Commission's competition authorities turn decisively against the public sector banks – for example, by ruling that their state subsidies are illegal – Deutsche and other commercial banks will have to look for growth outside Germany.

One area of expansion is the rest of Europe. Deutsche has bought Banca d'America e d'Italia and Banca Popolare di Lecco, giving it 260 branches in Italy, employing 4,800 people. It also has stakes in Spain. These are only the sketchiest of foundations for a pan-European banking system, though Deutsche is the only European bank to have made a start on building such a network.

So if the bank was to make a decisive move abroad, it had to get into the US and, above all, try to break into the top tier of investment banking. It made its first move into that business in 1989 when it bought the UK house Morgan Grenfell. Early problems in blending the different cultures were pushed aside as Deutsche embarked on an expensive campaign to hire the best investment bankers and create a US operation virtually from scratch.

This was what Mr Breuer later called his "build and buy" strategy – pay for specialist talent where necessary and acquire an investment bank should one come up for sale. But the campaign, which analysts estimate has cost Deutsche $3bn over the past decade, almost fell to pieces earlier this year with the defection of some of the bank's most prized staff, notably Frank Quattrone and his 130-strong team of technology experts in California.

Moreover, it was becoming clear by last spring that Deutsche was vulnerable to its US competitors even in its European backyard. When Daimler-Benz needed an investment bank to smooth its merger with Chrysler, it turned to Goldman Sachs, not Deutsche – even though Deutsche was its major shareholder.

Such disappointments underlined the German bank's continued failure to break into the top ranks of world investment banks. In August, they prompted Standard & Poor's, the US ratings agency, to remove Deutsche's highly coveted triple-A credit rating.

Bankers in Frankfurt say Goldman Sachs and other big US investment banks owe their advantage in Europe to two factors. "The Americans can cross-subsidise from their profitable US activities and, unlike the Europeans, they have no national focus, so they cherry-pick the best business," says one banker.

"Second, European banks tend to be lenders and bureaucrats. But investment banking is a very sharp-nosed world, and managers of US investment banks are highly involved in the day-to-day business. The Europeans are just way behind."

For Deutsche, such challenges are unlikely to disappear with the acquisition of Bankers Trust. The US bank lacks a commanding presence in Europe, but that is where some analysts say Deutsche needs most help. Moreover, Deutsche is likely to have to inject considerable funds into Bankers Trust if it is to compete effectively with bigger US institutions in fields such as mergers and acquisitions, corporate finance and advisory business.

On the other hand, the combined Deutsche-Bankers Trust group will have more than $600bn in assets under management and will be the world's number two in global custody business, after Chase Manhattan. The new group is also expected to shine in niche markets such as high-yield debt in Europe.

If bankers and analysts in New York and Frankfurt have expressed more than a little scepticism about the deal, that may owe something to the suspicion that Bankers Trust was not even Deutsche's first choice as a US partner. The German bank is widely believed to have made an attempt earlier this year to enter Wall Street by buying J.P. Morgan – and to have been rebuffed.

But Mr Breuer is not a man who is easily deterred. Since becoming Deutsche's chairman in May 1997, he has pursued a strategy of building up a big investment banking operation in the US, no matter what the setbacks.

The goal is ambitious, particularly for a bank with Deutsche's traditionally cautious habits. But as Mr Breuer sees it, the peculiarities of Germany's domestic banking structure and the fast-changing patterns of world banking leave Deutsche with little choice but to go for the top.

Deutsche's remaining hold on German industry

Non-banking enterprises in which Deutsche has 5% or more of share capital, and worth over DM100m

Company	Share of capital (%)	Market value Dec 31 1997 (DM m)
Allianz	10.0	10,448
Daimler-Benz*	21.8	14,152
Continental	8.4	369
Heidelberger Zement	10.1	602
Philipp Holzmann	25.0	509
Linde	10.1	923
Metallgesellschaft	13.0	574
Münchener Rückversicherungs (share in voting capital 9.9%)	10.0	5,585
Nürnberger-Beteiligungs	26.0	566
Südzucker (share in voting capital 12.9%)	10.1	442
VEW (share in voting capital 3.9%)	6.3	728

Source: Deutsche Bank

* Before merger with Chrysler, after merger 12%

OBSERVER

Rupert's recruit

Keith Rupert Murdoch traditionally prefers women in his newspapers rather than his boardroom. Appointing the forceful Letizia Moratti as the new face of News Corporation in Europe goes some way to making amends.

She becomes the only woman on the News Corp board who isn't called Murdoch. Beyond BSkyB's Elisabeth Murdoch and Anthea Disney, head of News America Publishing Group, the list of top female talent working for the Oz Boss is shorter than a tabloid editor's attention span.

Now 48, Moratti started in her family's insurance brokerage, Brichetto. As chairman of Italian state broadcaster RAI, she pulled it back into shape – memorably changing the entire editorial management team of three television channels over a weekend. Her record there may help bring the company into Murdoch's new digital television venture involving Telecom Italia.

In her mission to expand Murdoch's empire, she'll have to keep a close eye on some of his racier titles – like The Sun, Britain's biggest-selling tabloid, which yesterday underscored its Eurosceptic credentials with an attack on Oskar Lafontaine.

The paper, not known for understating its case, carried a front-page picture of the German finance minister beside the headline: "Is THIS the most dangerous man in EUROPE?"

Lafontaine is, apparently, "the biggest threat to the British way of life that we have seen since 1945" because he wants to harmonise taxes and promote the single currency. Or in Sunspeak, to "increase your taxes" and "abolish your pound".

Germans may have been surprised by a special "Der Sun", helpfully produced in German to get the message across to them. Its attack on Lafontaine starts: "Most of us have never heard of this man." In Brighton, perhaps – but in Bremen?

High dudgeon

An interesting demo is planned for tomorrow on St Vincent, the eastern Caribbean island which has a population of 110,000.

Faced by weak markets for traditional exports such as bananas, many farmers are turning to marijuana. This hasn't escaped official attention and US marines, local police and officers of the Regional Security System – a multinational police force which fights narcotics smuggling and gun-running in the Caribbean – are gearing up to destroy plantations in the mountains.

The farmers have formed an association and have called tomorrow's demo to demand a halt to crop destruction while the government researches legal uses of their crop. In other words: we are breaking the law and we want to go on doing it until the authorities come up with a better idea.

Hash growers' leader Junior Cottle has invited prime minister Sir James Mitchell to discuss the situation. He hasn't replied.

Sold a pup

Another high-rolling strategy from 24-year-old hedge-fund manager Andrew Nissenbaum. The precocious pup may have lost a goodly proportion of his investors' cash since setting up the Bahamas-based Macrofund last year. But now he plans to win it back – by moving into internet gambling.

Florida-based Nissenbaum, who claims he will be "up there with Soros" one day, reckons he's found a loophole in US laws banning betting on the web. An online casino based in Silicon Valley is his next move, and he's taken a $30,000 cash advance on his credit card to invest.

It's a credit to Nissenbaum's tenacity that he's still in business at all. After losing 95 per cent of investors' money at one stage this summer, Macrofund has bounced back thanks to some big bets on the yen and a move into bargain-basement equities such as Thai Farmers Bank.

But while other hedge-fund managers have been snuggling up to investors lately, Nissenbaum thinks his backers should keep their opinions to themselves. "I don't like investors telling me that my theories are stupid," he says. Well, someone's got to do it.

Writ large

Czechs are looking forward to the libel trial of the century after President Vaclav Havel sued the author of a book, several newspapers and Television Nova, the main commercial television station, for alleging that his wife Dagmar had been unfaithful.

The Czech public has never warmed to the second Mrs Havel, whom the widowed president married last year. The blonde actress, 17 years his junior, is seen as pushy and frivolous and a poor replacement for Olga, who stuck with the dissident playwright during his years in prison under the communist regime.

But as always in the Czech Republic things are never as simple as envy of a 62-year-old man for having a pretty, younger wife. Dagmar has hit back at Vladimir Zelezny, head of Television Nova, alleging that he's mounting a campaign to have someone pardoned.

Zelezny, a media baron who hosts his own TV show, says it's nonsense to suggest that he's publishing the allegations because he wants his son, David, a convicted rapist, released from prison. Like everyone else, he says, he can't wait for the trial.

The Financial Times

100 years ago

The Franco-Italian Treaty

Rome, 25th Nov. In Parliamentary circles a distinct feeling of opposition to the new commercial treaty with France has set in, and the measure is likely to be warmly discussed in the Chamber of Deputies. The principal objection is taken to the wine clause, which, it is declared, will result in a complete suspension of the exports to France of the Southern Italian wines, all of which contain more than twelve degrees of alcohol. A Cabinet council was held to-day at the Elysée.

50 years ago

Malayan Rubber Production

Singapore, Nov 25. A sharp fall in the production of rubber on smallholdings last month of nearly 15,000 tons compared with September is considered attributable to a combination of factors, not the least of which is the increased protection now being afforded to European estates by the additional security forces. Since the emergency began in June, many estates complained of mounting thefts by illicit tapping of trees on isolated plantations which found a market only through rubber dealers.

FINANCIAL TIMES

THURSDAY NOVEMBER 26 1998

THE LEX COLUMN

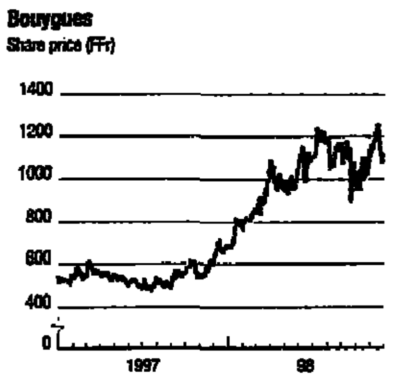
Digital harmonies

Like the second world war's Manhattan Project, the music industry's Madison Project is all about harnessing explosive power – in this case the internet's. The funkily-named venture is a deal between the big five record companies and International Business Machines to test a secure digital music distribution system.

For the record labels, the internet has so far been more threat than opportunity. Piracy has spiralled as thousands of "internet jukeboxes" have sprung up, from which consumers can download unauthorised digital recordings. But the web also offers huge potential. While world music sales are stagnant at $38bn a year, the internet's share is expected to jump from virtually nothing to 15 per cent by 2002. If IBM's clever technology allows the record companies to preserve their copyrights, they will be able to tap into this enormous growth. On top of that, storing and disseminating music digitally will allow them to cut manufacturing and distribution costs dramatically. If the Madison Project takes off, its main victims will be retail chains like HMV, Virgin and Tower Records.

Longer term, however, there is no reason why successful artists, in their turn, should not use the internet to bypass the music industry. With much reduced production costs, contracted-out marketing and access to funds through securitisation of royalty streams, stars could in effect become individual record labels.

Bouygues



Source: Datastream/ICV

No tears should be shed over the ending of the hollow shareholder pact between the Bouygues brothers and their tormentor, Vincent Bolloré. But neither should there be too much glee. It would be premature to assume this heralds a break-up bid for the French conglomerate. M. Bolloré's quoted vehicle is about a fifth the size of Bouygues, which has a market value of FFr30bn ($5.25bn) – and near FFr10bn net debt. While he may lift his 12½ per cent stake, it would be astonishing to see a full bid. Hence talk of linking with an ally.

But what attraction is there in Mr Bolloré's wresting management control from the Bouygues? He has championed a partial break-up, notably questioning the group's involvement in telecommunications. But how much further would he go? His present rather opaque empire includes transport and tobacco, and he has expressed interest in Bouygues' construction and television interests. This would not bode well for genuine refocusing. He could, of course, take profits and sell his stake to a bigger bidder. But who would want all of Bouygues? And the *current price is too close to break-up value to* offer much profit from dismemberment.

The best solution would be for the Bouygues brothers to slim the group down. They have already conceded that Bouygues Télécom should be listed and are close to securing a partner in utilities. But they are still trying to control too much with too little capital.

European tax

Hats off to Mario Monti. The European commissioner responsible for taxation may be an unlikely ally for the UK in its dispute with Germany about tax harmonisation, but no less welcome for that. A minimum level of corporate taxation across the EU would not only mean rates might have to rise in low-tax countries but would also remove the incentive for nations to compete in cutting taxes. In general, such rivalry is healthy. Lower taxes are one of the ingredients needed to boost long-term growth in euroland.

Where does the debate go from here? Oskar Lafontaine, the German finance minister, is not likely to give up his ambition for tax harmonisation. But it would be better if he focused his efforts on genuinely harmful tax competition. The provision of tax breaks to favoured industries is one example of such unhealthy rivalry – it amounts to state aid. Both Mr Monti and Mr Lafontaine would do Europe a service if they could come up with a clear definition of the boundary between fair and unfair competition.

Mind you, while cracking down on harmful tax competition, the Commission could also step up its campaign against unfair competition in general. Indeed, the next time Mr Lafontaine brings up the tax topic, Gordon Brown, the UK chancellor (finance minister) might remind him that state subsidies and monopolies are still rife in much of continental Europe.

National Power

National Power is the latest UK electricity generator to plug into the retail supply business. But will the benefits of vertical integration justify the £180m National Power is paying for Midlands Electricity's supply business? The deal would give National Power a market for its electricity. Right now generators have the upper *hand and suppliers pay a premium to get* electricity at stable prices. But National Power fears – with some justification – that this market power may shift to the suppliers. Buying a supplier creates a natural hedge. National Power also hopes this deal will protect it if wholesale prices collapse, because most customers will not switch suppliers. This last argument looks doubtful. It is unlikely wholesale prices will plunge. Even if they do customers may switch if the savings are large.

National Power is paying between £130 to £170 per customer, adjusting for inherited liabilities. That compares favourably with the £200 per customer many believe PowerGen paid in its deal for East Midlands Electricity. That said, National Power's price looks full. Around £100 per customer looks fair value for a big customer base. Preserving the "power" premium does not quite justify the difference.

The good news is that, provided the regulator approves, National Power will not have to buy a distribution business too, an area in which it has no expertise. That, together with sensible reinvestment of proceeds from its plant disposal, should do much to improve National Power's image with investors.

Turkey's leader voted out over corruption allegation

Political vacuum as parties fail to agree over caretaker coalition

By Leyla Boulton in Ankara

Turkey was plunged into a political vacuum yesterday after its government collapsed over corruption allegations.

The main parties failed even to agree on the options for a caretaker coalition to replace the government of Mesut Yilmaz, prime minister for only 16 months, until elections.

He was voted out of office by 314 votes to 214 on a censure motion accusing him of corruption. Mr Yilmaz, who rejects allegations that he acted improperly in a $600m bank sell-off, said it was now up to the parties that backed the censure motion to worry about the shape of an interim administration.

But he said elections scheduled for April 18 should be held in February to reduce political uncertainty.

The result leaves Turkey in political limbo, at a time when it needs strong leadership. Turkey is facing a *credit squeeze which makes it difficult* to borrow money on international markets. It is in a diplomatic stand-off with Italy, which is resisting the extradition of Abdullah Ocalan, leader of the PKK Kurdish guerrilla group. The Ocalan dispute could affect Turkey's relation with *the European Union, which* has improved in recent months.

Süleyman Demirel, the president, last night began consulting with party leaders, but there was no consensus on the outcome.

Gazi Erçel, governor of the central bank, said the Turkish economy would withstand the renewed political turbulence "but at a cost". He said until a new government was elected, it would be difficult for Turkey to press ahead with its fight to reduce chronically high inflation and to rein in the rising cost of servicing its domestic debt. Mr Yilmaz managed to cut retail-price inflation from 93 per cent in October 1997 to 77 per cent a year later.

Most analysts dismissed the possibility of a coalition headed by Recai *Kutan, head of the Islamist Virtue* party, which has 144 seats in parliament, more than any other party. Virtue's predecessor – the Welfare party – was ousted from government by the military in a so-called "soft coup" last summer.

The Turkish media and markets were yesterday alive with rumours of an alliance between the next three largest parties, but this would also be fraught with difficulties.

Mr Yilmaz and Tansu Çiller, leaders of the two centre-right parties with 135 and 99 seats respectively, have a history of personal animosity. They appear unwilling to back a government headed by Bulent Ecevit, who was vice-premier in the Yilmaz administration and leads the Democratic Left party, the fourth largest in the 550-seat parliament.

Democratic Left is at loggerheads with the other left-of-centre party, the CHP, which first attacked Mr Yilmaz over the corruption allegations and then withdrew its support from the government, paving the way for yesterday's no confidence vote.

World stocks, Page 38

IMF invites Russia experts to brainstorming policy session

By John Thornhill in Moscow and Stephen Fidler in Washington

The International Monetary Fund has invited about 20 Russia experts to a "brainstorming session" on Monday to help rethink the policies it advocates in the wake of the country's financial crash in August.

The IMF, which has lent almost $19bn to Russia to support economic reform, has been criticised in Washington and Moscow since the August crash undermined its assistance programme.

The fund is withholding further financial support to Russia until the government clarifies its economic intentions. There are fears that *Moscow might resort to large-scale* money printing. But relations with Russia will remain critical to the fund's credibility, given that the country accounts for almost one-fifth of outstanding IMF loans.

Some economists fear that, in the absence of further financial support, Russia may experience difficulties in making almost $5bn of repayments to the IMF next year.

The meeting has been called by Stanley Fischer, the fund's first deputy managing director, and includes US, Russian, and European government officials, academics and bankers with knowledge of the country. The fund has attempted to broaden its normal pool of advisers by inviting some prominent critics of IMF policy, such as Padma Desai, a professor at Columbia University, and Peter Reddaway, a Russia expert at Georgetown University.

The IMF said: "The purpose of the closed-door day-long meeting is for a group of experts to stand back and assess what is the best policy for *Russia in the future, given the* immense challenges it now faces."

The new Russian government has been sharply critical of the IMF's insistence on tough monetary and fiscal policies and called for more lending to the "real economy". But senior ministers appear keen to maintain good relations with the fund in the hope of attracting additional financial support.

Some former IMF members have argued the fund is not the most appropriate institution to support Russian economic reform and have called on the Group of Seven industrialised countries to assume a more direct role in fostering institutional change.

This week, Augusto Lopez-Claros, an economist at Lehman Brothers, the US stockbroker, and former IMF representative in Moscow, suggested that only a global lender of last resort could have supplied the massive infusions of cash needed to restore market confidence in Russia in July. "I would claim that we do *not have the international financial* framework in place to prevent the recurrence of other such crises with potentially much larger implications on a global scale," he said.

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Thousands of Indonesian students were prevented by police from marching on ex-president Suharto's home in Jakarta. Page 4. AP

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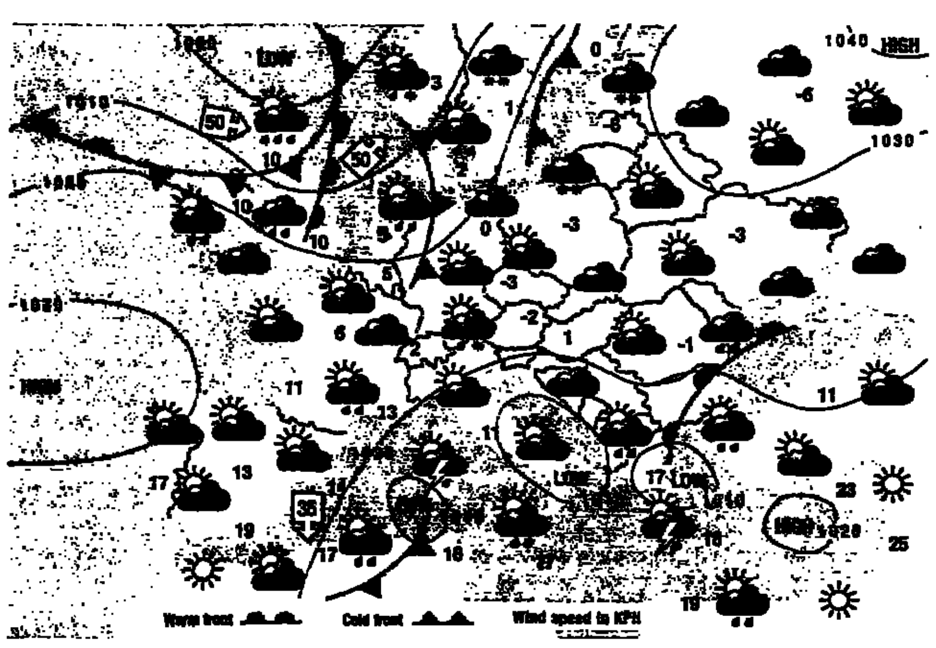
FT WEATHER GUIDE

Europe today

Rain moving eastwards into Scandinavia will turn to snow inland. Eastern Europe will be warmer than recently with some brightness after early fog has thinned. Temperatures in many areas will stay below freezing all day. The Low Countries and eastern France will have isolated showers, moving into central regions, and most areas will end up milder than recently. Most of the Mediterranean will have heavy or thundery downpours.

Five-day forecast

The Mediterranean will be unsettled, especially in central and eastern areas. Southern parts of Italy and Greece and western Turkey will have downpours and thunderstorms. The north-west and west will become milder but often rainy. The east will stay below freezing but will not be as cold as recently.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	31
Accra	Fair	32
Algiers	Shower	17
Amsterdam	Shower	5
Athens	Thunder	17
Atlanta	Fair	20
B. Aires	Fair	22
B.ham	Fair	9
Bangkok	Fair	31
Barcelona	Fair	14
Beijing	Cloudy	5
Belfast	Shower	10
Belgrade	Cloudy	4
Berlin	Ice	0
Bermuda	Fair	24
Bogota	Fair	18
Bombay	Sun	34
Brussels	Shower	5
Budapest	Cloudy	1
C.hagen	Shower	2
Cairo	Sun	26
Caracas	Fair	30
Cardiff	Cloudy	10
Casablanca	Fair	19
Chicago	Fair	10
Cologne	Fair	3
Dakar	Fair	30
Dallas	Sun	24
Delhi	Sun	26
Dubai	Sun	31
Dublin	Shower	10
Dubrovnik	Fair	10
Edinburgh	Shower	10
Faro	Sun	19
Frankfurt	Cloudy	2
Geneva	Cloudy	2
Gibraltar	Sun	19
Glasgow	Shower	10
Hamburg	Fair	1
Helsinki	Fair	0
Hong Kong	Shower	26
Honolulu	Fair	29
Istanbul	Shower	15
Jakarta	Fair	33
Jersey	Fair	11
Johannesburg	Thunder	25
Karachi	Sun	30
Kuwait	Sun	31
L. Angeles	Cloudy	21
Las Palmas	Sun	25
Lima	Cloudy	23
Madeira	Fair	21
Madrid	Fair	13
Majorca	Shower	14
Malta	Shower	17
Manchester	Shower	10
Manila	Cloudy	30
Melbourne	Fair	31
Mexico City	Cloudy	24
Miami	Fair	28
Milan	Shower	7
Montreal	Rain	5
Moscow	Fair	-6
Munich	Snow	1
Nairobi	Shower	25
Naples	Shower	14
Nassau	Fair	28
New York	Cloudy	12
Nice	Shower	13
Nicosia	Fair	23
Rangoon	Fair	32
Reykjavik	Fair	1
Rio	Fair	26
Rome	Fair	11
S. Frsco	Rain	16
Seoul	Fair	6
Singapore	Thunder	31
Stockholm	Snow	1
Strasbourg	Sleet	2
Sydney	Shower	23
Tangier	Fair	19
Tel Aviv	Fair	25
Tokyo	Fair	15
Toronto	Cloudy	8
Vancouver	Rain	8
Venice	Fair	10
Vienna	Snow	-2
Warsaw	Fair	-3

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COMPANIES & MARKETS
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INSIDE

COMPANIES IN THIS ISSUE

MARKET STATISTICS

IBM to test internet music delivery

Computer group secures record companies' involvement

By Alice Rawsthorn

International Business Machines, the world's biggest computer company, has reached agreement with Sony, Warner, EMI, Universal and other US record companies to participate in a digital music distribution system, known as the Madison Project.

The agreement is a watershed for the music industry, which regards delivering digital recordings directly to consumers' computers via the internet and other digital networks as both a threat and a commercial opportunity.

Consumers can already download unauthorised digital recordings from thousands of pirate internet sites. Record companies are anxious to start legal digital distribution, which will enable them to increase profits by bypassing retailers and cutting manufacturing costs. However, they have been wary of doing so until they were convinced that technical and legal safeguards were in place.

IBM, like other computer companies, is anxious to exploit the market for digital music distribution technology. It has invested $20m in developing the Madison Project which, it says, is a secure system for record companies to deliver digital recordings to consumers. It will also monitor any internet music sales, whether by digital distribution or conventional mail order purchases.

For months, IBM has been in secret negotiations with US record companies to secure their involvement in a Madison Project test, scheduled to start next year. IBM declined to comment, but it is understood that last week it signed an agreement with all the big US record labels not only to participate in the trial but to make a financial contribution to it. Details of the test have yet to be agreed. However, the Madison Project will be by far the most ambitious digital music distribution experiment conducted so far. Other trials, notably one run by Deutsche Telekom, the German telecommunications company, have been far smaller in scale.

The negotiations with IBM have caused some discord within the music industry. Sony and Warner are believed to have been enthusiastic from the start. Other companies, notably Bertelsmann and Universal, were initially sceptical.

Universal, part of Seagram, the Canadian group that is in the process of expanding its music interests with an $11bn bid for PolyGram of the Netherlands, is understood to have discussed developing its own technology with AT&T, the US telecommunications company. AT&T is marketing its A2B music distribution system in competition with IBM's.

Recent research suggests the internet could account for a third of all US record sales – worth $12bn last year – in 10 years' time.

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Hoechst and Rhône confirm talks

Trade unionist warns of job losses as groups end silence on merger moves

By Tony Barber in Frankfurt and David Owen in Paris

Hoechst and Rhône-Poulenc, the German and French pharmaceuticals groups, yesterday confirmed they were in merger talks. But a German trade unionist on Hoechst's supervisory board indicated he had doubts about the possible structure of the deal.

The two companies ended several weeks of public silence with a short statement saying they were "in discussions with a view to combining their life sciences businesses".

The deal, in which Hoechst is being advised by Lazard Frères and Rhône-Poulenc by Rothschild and Goldman Sachs, would create the world's largest "life sciences" company, or producer of drugs and agrochemicals.

But Rainer Kumlehn, the leader of the German miners, chemical and energy workers' union in the state of Hesse, who sits on Hoechst's supervisory board, said he feared a merger might lead to job losses and a dilution of the German industrial practice of *Mitbestimmung*, or worker participation in company decisions.

This risk would be greater if the new company's headquarters were to be based outside Germany, he added.

The two companies have disclosed no details about where they might locate their headquarters, and even took the precaution yesterday of noting that "no guarantee can be made as to the outcome of the current discussions".

However, people close to the negotiations said that, in the interests of balance, the companies were likely to keep the pharmaceuticals division in one country and the agrochemicals division in another.

Hoechst's supervisory board is to meet on December 8, ostensibly to consider other issues, including the management's plan to create an independent company out of Hoechst's remaining industrial chemicals units.

Mr Kumlehn's doubts would not necessarily block a merger unless they commanded broad support from other supervisory board members.

Seeking the right formula: A Hoechst pharmaceuticals plant in the suburbs of Frankfurt AP

Hoechst and Rhône-Poulenc are in the process of divesting themselves of their traditional industrial chemicals operations in favour of the potentially more profitable areas of pharmaceuticals and agrochemicals.

Hoechst's shares have risen by as much as 35 per cent on the Frankfurt stock exchange since talk of the merger started this month, but they fell back yesterday by more than 4 per cent to DM75.05. Rhône-Poulenc shares ended the day in Paris down FFr4.50, or 1.5 per cent, at FFr286.

The share price of Schering, another German drugs company which owns 40 per cent of AgrEvo, an agrochemicals joint venture with Hoechst, rose 3 per cent.

Bolloré cancels pact over Bouygues stake

By David Owen in Paris

France's Bolloré group yesterday cancelled its shareholders' pact with Bouygues, sparking fresh speculation on the future of one of the country's premier industrial empires.

Bolloré, which has 12.5 per cent of Bouygues's capital but only 10.3 per cent of voting rights, said it was taking back its "freedom of manoeuvre". The agreement, reached last year, capped Bolloré's stake in Bouygues at 14 per cent for five years.

Bolloré's action opens a new phase in the struggle for control of the construction, TV and telecommunications group's strategy between Vincent Bolloré, the Bolloré group head, and the Bouygues brothers, Martin and Olivier.

Mr Bolloré has urged Bouygues to sell its telecoms operations, believing the company had insufficient capital to develop so many activities at the same time.

The Bouygues believe that, despite the cost, telecoms will be a bonanza for the group. Senior management has indicated it hopes Bouygues Telecom, the company's 34 per cent-owned mobile telecoms unit, will be ready for flotation by late next year or early 2000.

Martin and Olivier Bouygues, who own 14.6 per cent of Bouygues' capital and 22.6 per cent of its voting rights, yesterday said they were "pleased" with Mr Bolloré's decision.

After yesterday's developments, Bouygues shares rose FFr35, or 3.2 per cent, to FFr1,115, on speculation that the group was again vulnerable to takeover from Mr Bolloré and yet-to-be-disclosed allies, or another group. Analysts, however, played down prospects of an immediate bid, arguing that the high share price made an investment at current levels risky.

"Officially the speculative aspect has reappeared, but the final arbiter will be the stock price," said Jean-Christophe Lefèvre-Moulenq, an analyst with Crédit Lyonnais Securities. "I think Mr Bolloré would find it more difficult to make a profit on his investment by going more deeply into Bouygues today."

One possibility, though, would be for Mr Bolloré, who is said to have a FFr2bn war chest but probably not enough for a solo bid, to buy enough new Bouygues shares to take his stake above the level held by the Bouygues themselves. His camp, which retains three Bouygues directors, could then argue that their strategic proposals were coming from the company's largest shareholder.

But it is widely recognised that Mr Bolloré, who is understood to have acquired his initial 10 per cent stake at less than FFr600 a share, could also sell out.

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Agencies look to Europe to win the rating game

Edward Luce, Capital Markets Editor, on the Emu effect

Competition between the world's largest credit rating agencies for market share in Europe's growing capital markets is intensifying in the build up to monetary union in January.

The two largest agencies, Standard & Poor's and Moody's Investor Services, have hired dozens of new analysts this year and expect recruitment to step up in the next few months.

Fitch IBCA, the product of a merger between a US and European rating agency last year, is also trying to muscle in on the act as the third largest agency. Even Duff & Phelps, a smaller agency, which focuses mostly on structured finance, has doubled its European staff levels in 1998.

"Europe is the largest growth area for rating agencies both because of the development of a pan-European capital market and the stimulus of monetary union," said Raymond McDaniel, managing director of international ratings for Moody's in New York.

Senior officials at the credit rating agencies believe that Europe's corporate bond market, currently a fraction the size of its counterpart in the US, will grow rapidly in the next few years. This is partly because European banks are increasingly reluctant to lend to relationship customers on traditional low-margin terms. Instead, banks are becoming increasingly active purchasers of bonds and can usually make more money from the fees from underwriting bond and securities issues than from old-fashioned lending. The trend towards greater shareholder value is expected to be accelerated by Emu.

As a result, S&P, which has 250 staff in Europe and fewer than 100 in Asia, now rates almost 100 sub-investment grade European companies compared to fewer than 50 last year. A sub-investment grade company is one rated below BBB minus for S&P and Baa3 for Moody's. S&P now rates 273 investment grade companies in Europe compared to 200 at the start of the year.

"If you compare Europe with the US the scope for ratings growth is phenomenal," said one analyst. Moody's, for example, has 5,500 separate ratings in the US, including hundreds of banks, corporates and mortgage lenders. In Europe, Moody's has issued fewer than 1,000 ratings.

But the agencies, which derive most of their revenue from the fees charged to the borrower for a rating, could face an uphill battle persuading some European borrowers to solicit a rating.

Merrill Lynch, the investment bank, estimates that only 10 per cent of Europe's potential investment grade companies have a credit rating against almost 100 per cent in the US. European companies such as Pirelli, the Italian tyre company; Porsche, the German car maker; and Carrefour, the French supermarket chain, have even tapped the bond markets without soliciting a credit rating.

There is also disagreement about how quickly Europe's bond market is expected to grow. With less than $15bn in outstanding high-yield – or junk – bonds compared to about $450bn in the US, Europe's bond market would have to grow exponentially to match its transatlantic counterpart in the near future.

However, it is clear that loans are declining as a proportion of overall borrowing in Europe with bonds gradually entering the mainstream. Agency officials say that even the slow development of a European corporate bond market would make Europe the fastest growing area in the world for ratings.

Western banks are split over Russian debt offer

By Clay Harris, Banking Correspondent

Western banks are split over the Russian government's latest offer to restructure its domestic debt, or GKOs, with one of the banks yesterday denouncing the terms as "confiscatory".

Under the offer, foreign investors will only be able to repatriate $550m of the $15bn they put into the GKO market, less than 4 cents on every dollar. For many of the banks involved, this will raise questions about the adequacy of provisions they have made on their GKO exposure.

Divisions within the committee are expected to break into the open at a meeting tomorrow in London. Several banks are believed to be unhappy with the leadership shown by Deutsche Bank and Credit Suisse First Boston, chair and deputy chair of the committee.

One bank said the new terms were no better than the original offer made by Russia and rejected by banks in August. Its negotiator said the Russians' strategy appeared to be: "The more you confiscate, the higher you score."

Unlike the original offer which included a dollar component, this one almost entirely involves rouble-denominated securities.

The complex structure, involving cash payments, a zero-coupon bond issued at par (effectively a non interest-bearing IOU) and a series of securities with coupons reducing year by year, is almost beside the point, say opponents.

A small component can be used for limited purposes such as paying old tax liabilities or buying newly issued bank shares. The rest must be recycled into new GKOs or placed for a year in a transit account.

The money cannot be used for any other purpose, even to buy a meal, although bankers hope to persuade the government it should allow it to be invested in Russian equities.

The Russian central bank has agreed to put a total of $550m up for auction in 1999 – at the rate of $50m a month.

The Russians had insisted that Wolfgang Wendt, a Deutsche executive whom they knew from previous London Club negotiations on sovereign debt, lead the banks' side.

TELECOMS GERMANY'S BIGGEST BANK JOINS GROWING LIST OF POTENTIAL INVESTORS INTERESTED IN LOSS-MAKING NETWORK

Deutsche Bank may buy cable TV stake

By Frederick Stüdemann in Bonn

Deutsche Bank, Germany's biggest, has expressed an interest in buying part of the cable television network owned by Deutsche Telekom, the partially privatised telecommunications company.

The bank is one of up to 20 potential investors that have recently registered an interest in buying into the loss-making cable network, which Deutsche Telekom is selling off owing to pressure from the regulatory authorities. The cable network has a book value of DM8bn ($4.7bn).

Deutsche Bank, which declined to comment, is understood to have made a bid with several independent cable operators.

Deutsche Telekom yesterday announced a 0.5 per cent fall in third-quarter net sales to DM16.68bn due to increasing competition following recent market liberalisation. Net nine-month sales, which do not include receipts taken on behalf of competitors who use Deutsche Telekom's billing system, rose 2.4 per cent to DM50.8bn. Net profits rose 24 per cent to DM3bn.

Deutsche Bank is not interested in being a long-term owner of the cable business. Instead, it is believed to want a financing role for other groups that would upgrade the cable network ahead of a possible further sale later.

Deutsche Telekom, which is being advised by N. M. Rothschild, the UK investment bank, is in the process of placing its cable activities in a separate business which will be broken in to regional units. The company has said that an initial sale to an intermediary, was an option, but that this was not as strong a possibility as it was a month ago.

A successful bid by Deutsche Bank would be its second significant step into the media sector. This year Deutsche Bank gained control over a 40 per cent stake in Axel Springer, Germany's biggest newspaper publisher, held by Kirch, the Munich-based film and broadcasting company.

The move prompted industry speculation that Deutsche Bank, which has close ties to Springer, would manage an eventual disposal of the shares.

Deutsche Telekom decided to open its cable network to outside investors following pressure from the European Commission which argued on competition for a separation of cable and fixed network activities.

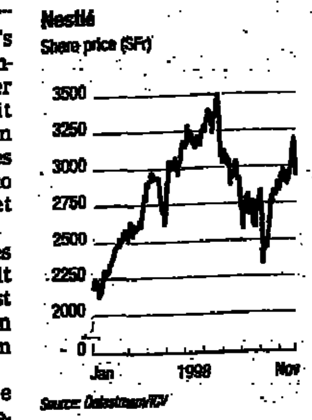
The company faces important decisions from German domestic regulatory authority which is expected to announce on Monday prices for access to the "last mile" into customers' homes and on which companies are entitled to preferential interconnection charges.

Paul Betts in Milan writes: Italy's communications regulatory authority yesterday cut by 20 per cent the interconnection charges Telecom Italia was proposing to apply to rival telecom operators seeking to connect their services to its network.

The decision is expected to be challenged in the courts by the privatised telecommunications group which claimed this summer the regulator's proposals would result in a substantial loss in income for the company.

Nestlé warns of fall in emerging market sales

By William Hall in Zurich



Shares in Nestlé, the world's biggest consumer foods company, fell more than 5.8 per cent yesterday after it warned that profits had been hit by a sharp drop in sales in Russia and Asia due to recent emerging market turmoil.

The company, which does not issue third-quarter profit figures, said sales in the first 10 months of 1998 had grown by 4 per cent, to SFr59.2bn ($42.1bn).

The figures were depressed by currency movements and Nestlé's real rate of sales growth of 4.6 per cent was well above the company's 4 per cent long-term growth target.

However, Peter Brabeck, chief executive, said sales to Russia, one of Nestlé's biggest growth markets, had fallen by 30 per cent since the country's financial crisis. Until the latest setback Nestlé had expected its Russian sales to top SFr1bn this year.

"We do not expect that order of magnitude this year, but we are convinced that Russia, with its 150m population, will become one of our most important markets in the years to come," he said.

In addition, there had been "serious fluctuations" in sales in other countries hit by the problems in south-east Asia and Latin America which would be reflected in the end-year results.

In the first half of 1998 Nestlé's net profit grew 7.4 per cent, nearly 2 percentage points faster than sales growth. However, Nestlé warned yesterday it did not expect full-year net profits to match the growth in consolidated sales.

James Amoroso, of Bank Julius Baer in Zurich, who had been expecting 1998 earnings per share to grow by 12 per cent, to SFr128, said he now expected growth of less than 5 per cent.

The 4.6 per cent volume growth had been above expectations, but he was worried by the 2.1 per cent increase in group prices, which suggested that Nestlé might be sacrificing margins to meet its growth targets.

Nestlé shares have risen more than 40 per cent this year, making it the best-performing share in the Swiss Market Index. Its shares ended the day SFr103 lower at SFr2,940.

Mario Corti, group finance director, said that the market's expectations for a profit increase in the neighbourhood of 10 per cent "were clearly too high".

Mr Brabeck expected the group's full-year sales to "easily clear SFr70bn", compared with SFr69.9bn in 1997.

He said that currency distortions made it difficult to judge the overall performance of the group which was why he put so much emphasis on real internal growth, which is not affected by acquisitions or divestments, fluctuations in sales prices and currencies.

In the first 10 months of 1998 currencies had a negative 5.7 per cent impact on sales, and acquisitions net of divestitures lifted sales by 3 per cent.

Mr Brabeck said Nestlé had moved to counter the crises in Asia and Russia with a mixture of "back to basics" adaptation of the product range to reduced purchasing power, reinforced cost control, looking for new sales channels and closer scrutiny of debtors.

German business braced for slide

Falling exports likely to hit profits after four years of buoyant sales, writes **Tony Barber**

From humble beginnings: Bayer's Leverkusen chemical works in 1901 and BMW cars awaiting export

German exporters – from chemicals and engineering companies to software specialists and steel producers – are bracing themselves for harder times next year as the world economy slows and reduces demand for German products.

Financial turmoil and economic weakness in east Asia, Russia and Latin America, coupled with a stronger D-Mark and lower orders from the US and Canada, are expected to eat into the profits of German companies in 1999 after four years of record or near-record sales.

This will be an especially painful blow as exports have been the lifeblood of German business since the second world war.

Some industries, notably cars and electrical engineering, are likely to ride the tide better than others. The launch of the euro in January and the technical challenges posed by the approach of the next millennium should continue to stimulate the information technology and communications sectors.

But there is no disguising the impact of the troubles in Asian countries such as South Korea, where German exports slumped by 46 per cent in the second quarter of this year. Even the software group, SAP, one of Germany's fastest-growing and most innovative companies, reported last month that its Asian sales had tailed off because Japan had frozen investment.

But Hasso Plattner, SAP co-chief executive, said Japanese demand might grow strongly after 2000 because large companies would be ready to replace home-grown software systems.

Exports rose by 10.2 per cent in the first eight months of this year to DM628bn ($370bn). But this impressive performance conceals the fact that the increase was only 4.3 per cent in August. Economists at Dresdner Bank expect the annual rate of export growth to fall from 7 per cent this year to 2 per cent in 1999 and say matters would be worse without the contribution of Germany's European Union partners.

They account for 55 per cent of German trade and should continue to have a healthy appetite for German products next year.

In one typical comment, the head of Germany's chemical industry association, Hans-Dietrich Winkhaus, said the world economic slowdown would force chemicals companies to rely on European demand to fuel growth next year.

Although German chemicals firms export only about 11 per cent of their products to Asia, the effect will still be noticeable.

The Bayer group expects the Asian crisis to reduce profits this year by DM100m and cost it about 1.5 per cent of total sales, worth about DM800m-DM900m. The Berlin-based drug producer, Schering, expects east Asia's troubles and the D-Mark's strength against many Asian currencies to cut up to 2 percentage points from its growth this year.

Its sales were already affected in September by the temporary closure of its Brazilian birth control pill plant after faulty packages found their way on to the market.

Prospects for Hoechst, which confirmed yesterday it was in merger talks with France's Rhône-Poulenc, look uncertain, even after it spins off most of its remaining industrial chemicals operations and concentrates on its life science businesses.

Analysts at Lehman Brothers say trading conditions are weakening across the whole of Hoechst's portfolio, with low agricultural prices and a poor cattle market likely to affect demand for its agrochemicals and feed additive products.

For the engineering group Linde, which is often described as the bellwether of the German economy, a disappointing outlook in Asia next year is mitigated by the fact that the company has just signed a $300m deal to build an ethylene plant in Malaysia.

It has also announced a $600m contract to join the US construction group, Bechtel, in building a plant in the United Arab Emirates.

Thyssen, another industrial giant, says the outlook is darkening for its steel business, which accounts for one-third of group turnover. It faces especially serious competition in export markets next year from suppliers in eastern Europe, Brazil and Japan.

The plant and machinery trade association VDMA predicts that German machinery output will slow in 1999 because demand will level off in Asia, Latin America and probably the US.

German car companies are confident of better results, partly due to strong passenger car sales in western Europe and North America.

DaimlerChrysler shares 'not for sale'

By George Graham, Banking Editor

Deutsche Bank said yesterday it had no plans to sell its shares in DaimlerChrysler to finance its planned $9.7bn takeover of Bankers Trust, the US wholesale bank.

However, bank executives yesterday said there would be no need to sell the 12 per cent stake in the German-US motor company to comply with US banking regulations, which generally prohibit such close links between banks and commercial companies.

DaimlerChrysler shares yesterday closed DM2.20 lower at DM153.

Investors and rival banks expressed concern that Deutsche might be able to escape having to issue new securities to finance the Bankers Trust purchase under a loophole in German capital adequacy regulations.

In most other jurisdictions, Deutsche would be required by bank supervisors to deduct the $5bn of goodwill involved in the Bankers Trust purchase from its capital in order to calculate its capital adequacy ratios.

German supervisors, however, are going to permit Deutsche to use international accounting standards, which increase its capital base and raise its Tier 1 capital adequacy ratio from 5.1 per cent to 6.2 per cent.

In addition, the bank will be allowed to write the goodwill off over 10 years, instead of deducting it immediately.

"No other regulator in the world would allow this," said James Hyde, European banking analyst at Merrill Lynch.

German regulators have always argued that they were justified in adopting a more lenient capital adequacy treatment of issues such as commercial mortgages and goodwill on the grounds that German accounting standards understated the capital strength of the country's banks by not taking into account profits on their equity holdings.

Eni expects 2.3% decline in profits

By Paul Betts in Milan

Eni, the Italian oil and gas group 37 per cent owned by the government, yesterday said it expected a modest 2.3 per cent decline in full year net profits to about L5,000bn ($2.96bn) – in spite of a sharper 21.7 per cent fall in operating earnings during the first nine months of the year.

The company, whose net profits totalled L5,118bn in 1997, based its full-year net profit forecast on an estimated Brent crude oil price of $11.50 per barrel in the last quarter, special gains of about L700bn from the sale this year of shares in Saipem, the oil drilling and service company, and in Nuovo Pignone, the engineering company.

It also based the forecast on lower net borrowing and interest rates, as well as lower tax rates.

Operating profits for the first nine months totalled L5,697bn compared with L7,272bn the year before.

The 21.7 per cent fall against a 31 per cent drop in oil prices during the period reflected not only low oil prices but L311bn worth of write-downs, higher depreciation and amortisation charges of L364bn and lower petrochemical products volumes and margins due to the Asian economic crisis.

However, the company said these negative factors were offset by higher quantities of oil and gas sold, higher natural gas margins as well as higher refining and marketing margins, lower fixed costs and a 4 per cent appreciation of the US dollar against the lire.

Net revenues in the first nine months fell 8 per cent to L40,252bn reflecting lower oil and gas prices only partly offset by higher volumes.

Capital expenditures rose by 22.4 per cent to L6,662bn during the first nine months mainly reflecting higher exploration and production investments.

CONTRACTS & TENDERS

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JAPAN LOSSES ON SHAREHOLDINGS TOTAL Y1,609bn

Life assurers face crisis as shares slide

By Naoko Nakamae in Tokyo

Japan's domestic life assurance industry is facing a crisis following falling share prices in the six months to end-September, according to data released yesterday by the top eight companies.

Total unrealised losses on shareholdings during the period for seven of the eight life assurers was Y1,609bn ($13bn). Nippon Life, the industry leader, managed to retain Y1,170bn in unrealised profit.

The eight companies said they had problem loans which in total reached about Y1,200bn. They also reported an average 3.9 per cent year-on-year decline in the value of life policies.

The worsening economy in Japan caused the benchmark Nikkei 225 index to fall from 16,527.17 on March 31 to 13,406.39 on September 30. Although the stock market closed at 15,073.47 yesterday, analysts suspect it will be unable to maintain this level for long.

If the market falls below 11,300, even Nippon Life's latent profits will turn into losses. Without unrealised gains to fall back on and solvency margins decreasing, life assurers are running out of time to deal with their problems.

The life insurance sector is also losing money in its core business. The eight industry leaders estimated that they would lose more than Y1,000bn on negative yields this financial year.

"They aren't investing their assets to meet their liabilities," said Andrew Smithers, of Smithers and Co. With domestic bond yields at less than 1 per cent, falling equity prices and even overseas holdings hurt by the falling yen, "they are guaranteeing [a 2.5 per cent] return on individual life policies that they just cannot meet".

As a result, many have announced that they will be lowering their guaranteed yield from 2.5 per cent to 1.5 per cent from April 1999, but as this will only apply to new policies, it is unlikely to relieve the strain.

The sector could also face increasing liquidity problems as policy cancellations rise. In the first half of the year, Chiyoda Life, which is in particularly bad shape, suffered a cancellation rate of 7.4 per cent. It also saw its income from insurance premiums fall almost 30 per cent, while its total assets shrunk 20 per cent.

NEWS DIGEST

STEEL

Posco to cut production in 1999 by 1m tonnes

South Korea's Pohang Iron & Steel (Posco), the world's second largest steelmaker, plans to cut steel production next year by 1m tonnes to 24.3m tonnes in response to a slowdown in demand. Posco estimated the move would reduce sales from its initial forecast of Won11,100bn for 1999 to Won10,100bn ($8.06bn). Facility investments in 1999 will be cut by Won793bn to Won1,280bn.

Samsung Securities believes Posco will report lower profits of Won822bn for 1999 because of weak steel prices and declining exports in Asia. It estimated 1998 earnings of Won930bn on sales of Won10,745bn. Profits this year have been boosted by foreign exchange gains from exports, but a stronger Korean currency next year would reduce such gains, Samsung said.
John Burton, Seoul

AIRLINES

PAL sale suffers setback

The sale of the troubled Philippine Airlines ran into further rough weather yesterday with leading government officials saying talks over a buy-out with Cathay Pacific, the Hong Kong carrier, had collapsed. Ronald Zamora, Philippine executive secretary, said PAL had called off negotiations with Cathay Pacific and restarted talks with Northwest Airlines, the US airline that had expressed an interest in a deal. He said talks with Cathay had collapsed following a "major disagreement" over the Hong Kong airline's plans to cut 200 pilots' jobs.

Joseph Estrada, Philippine president, said Lucio Tan, PAL controlling shareholder, was in the US negotiating with Northwest. Cathay officials, however, have denied that talks with PAL had collapsed, saying the company was still carrying out due diligence on the airline. PAL officials were unvailable for comment.
Tony Tassell, Manila, and Louise Lucas, Hong Kong

SEMEN GRESIK

Cemex seeks to lift stake

Cemex of Mexico, the cement producer, yesterday made a tender offer for 6 per cent of Semen Gresik, Indonesia's partially privatised cement company. Cemex, which bought 14 per cent directly from the government in October, said it would pay $1.38 per public share, at a total value of $49.1m, by January 15. It had said it wanted to buy a further 5 per cent gradually, to lift its stake to 25 per cent.

The offer is tied to a minimum rate for the rupiah of Rp10,225 against the US dollar but the currency has recently rebounded to Rp7,500. Any significant strengthening of the rupiah could render the offer unattractive. Traders suggested Cemex might buy through the market if the tender offer fails but they said they did not expect a significant further rise in share prices.

The stock exchange had been expecting yesterday's offer and Semen Gresik's shares rose to Rp7,975 ahead of the announcement on Tuesday. They fell Rp250 to Rp7,725 yesterday. **Sander Thoenes, Jakarta**

Thai group unveils reshuffle

By William Barnes in Bangkok

Siam Cement, Thailand's biggest manufacturing conglomerate, will seek to reintroduce itself to international investors and creditors through an international roadshow that starts next week.

However, the roadshow will not be used to raise equity capital nor will it herald a fire sale of assets to relieve the current debt burden of $4.2bn.

"We are going on a process of fundamental changes. It is right that we explain ourselves to our investors and interested parties," said Chumpol Nalamliang, group president, yesterday after he unveiled the outline of a restructuring plan.

Under the plan, the group's 200-odd businesses will be reshuffled into nine divisions: pulp and paper, tyres and auto parts, petrochemicals, cement, cement distribution, roofing and concrete products, ceramics and gypsum. The paper and tyre divisions are listed companies.

The ninth division will be a holding company that will look after operating business such as steel and electrical and metal products.

The move was designed to create greater transparency in the reporting of operating results and increase the group's flexibility, Siam Cement said.

In the past six months, it has responded to the slump in domestic demand by lifting exports and increasing local cement prices.

It has sufficient cash flow to cover interest payments plus most of its principal. "The difference they will probably make up with onshore credit lines," said Paul Wanglee, analyst at Goldman Sachs (Asia).

Nevertheless, analysts said the group would still like to sell most non-core businesses such as steel, ceramics and vehicle parts.

Japanese petrol industry needs tiger in its tank

Nippon Oil merger has not prompted much-needed rationalisation, says **Alexandra Harney**

When Nippon Oil and Mitsubishi Oil announced the biggest merger in the history of Japan's petrol industry last month, it was billed as the prescription for the sector's ills. But the market reacted sluggishly and oil stocks have failed to post significant gains.

Instead of delivering the rationalisation that the industry desperately needs, the merger has only increased uncertainty. While industry analysts say the tie-up, by leaving other groups in the sector without a plan, has rekindled negotiations about consolidation, the shape this realignment will take remains unclear.

Japanese oil companies: running on empty

March 1998	Rating	Sales (Ybn)	Net income (Ybn)	Operating margin (%)	Debt/ capitalisation (%)
Cosmo Oil*	Ba1	1,680.48	5.34	1.6	75.2
General Oil	Not rated	538.67	0.62	-0.1	16.7
Idemitsu	Not rated	2,009.06	1.91	2.0	94.4
Japan Energy*	Ba3	1,986.09	19.05	2.3	90.1
Mitsubishi Oil	Baa3	1,147.91	-35.97	-2.2	70.4
Nippon Oil*	A2	2,626.16	11.48	1.4	58.8
Showa Shell*	Baa1	1,588.07	6.39	0.9	67.0

Source: Moody's Investors Service   * Long-term debt ratings currently under review for possible downgrade

Japan's petrol sector is in desperate straits. Profit margins, squeezed by overcrowding and excessively high cost structures, have hit historic lows this year, and difficult market conditions have left companies staggering under Y5,000bn ($41m) of bad debts, according to a study by Booz-Allen Hamilton, the US consultancy group. Analysts estimate about three-quarters of the country's 59,000 petrol stations are bankrupt.

Worse, in the weeks since the merger, the crisis in Japan's oil industry has deepened. Last week, General Sekiyu, which is 45.8 per cent owned by Esso Oil, announced its first interim losses in more than 10 years, bringing to four out of seven the number of big oil groups in the red. Japan Energy, Cosmo Oil, and Idemitsu Kosan are all operating at a loss, adjusting for changes in accounting practices.

Yesterday, Moody's the US credit rating agency, warned that it had put Showa Shell's debt rating on review because of its deteriorating financial position. The group's debt is currently rated Baa1, just above speculative quality.

With little hope for a recovery in profitability this year, analysts point to three options for the industry: a government-backed bail-out along the lines of the Y100bn loan arranged for Nissan, the carmaker; another merger or takeover; or the bankruptcy of one of the big seven followed by a restructuring managed by the banks and the Ministry of Trade and International Industry.

The first option appears the most likely, if history is any guide. In May, the Export-Import Bank, a government-backed institution, agreed to extend special loans to the big seven, in theory to fund crude oil purchases. Observers say the loans were a plan to save enfeebled oil companies, especially Idemitsu Kosan.

But the funding has allowed the bloated oil companies to hold on to sprawling networks of unprofitable refineries and service stations while accumulating huge piles of debt. This has badly damaged their credit ratings: Moody's has assigned Idemitsu Kosan a B2 rating in view of the group's deteriorating debt position and launched a review of Cosmo Oil, Nippon Oil and Japan Energy for a possible downgrade.

Alternatively, the industry could be heading for another tie-up. The Mitsubishi-Nippon Oil deal has renewed questions about a merger between a Japanese company and one of the several US and European groups with a stake in the Japanese market.

Showa, the Anglo-Dutch group, Exxon, the US-based conglomerate, and Mobil, the US petrol group, have had retail operations in Japan for decades. British Petroleum has just opened its first service stations and plans to expand to over 120 outlets in the next five years.

But BP denies any intention to acquire a local group and it is clear that other US and European groups are reluctant to take on Japanese groups' extraordinarily high debt levels and their sticky web of refiner-wholesaler relationships.

The scenario that the Japanese government wishes to avoid is the failure of one of the big seven, prompting a round of bankruptcies of wholesalers, and job losses.

The most likely outcome is that the industry will stagger on, gradually restructuring retail and refining operations.

The big seven have pledged to trim costs in upstream operations and to eliminate 10,000 of the nearly 60,000 service stations. They are already sharing facilities and refining technology. Yesterday, Japan Energy and Fuji Sekiyu said they would co-operate on crude oil importing and refining operations to cut costs.

Margin deterioration has slowed recently, as retail petrol prices have stabilised. Per-litre margins are about Y27, compared with a low of Y10 following the introduction of deregulatory reforms in April, according to Deutsche Bank.

But analysts warn that without drastic rationalisation, another dip in retail prices or even the seasonal decline in demand between January and March could push the weaker groups closer to failure.

"Unless we see an increase in cost reductions to the point where we see a breaking point, the red ink is just going to increase," says Lalita Gupta, industry analyst at Deutsche Bank.

That means it is only a matter of time before the real restructuring in Japan's oil industry begins.

FINANCE PARTNERSHIP STATUS PROVES ATTRACTIVE AS MANAGING DIRECTOR GORDON DYAL SWITCHES FIRMS

Morgan loses M&A chief to Goldman

By William Lewis in New York

Goldman Sachs, the investment bank, has poached one of Wall Street's hottest merger and acquisition bankers from competitor Morgan Stanley Dean Witter.

In a surprise move, Gordon Dyal, 37, yesterday resigned as a managing director at Morgan Stanley *to join Goldman as a partner* and managing director in its mergers and acquisitions department.

Mr Dyal is recognised by other Wall Street bankers as one of the heaviest hitters in the M&A industry. He is an M&A generalist, advising clients about takeovers in a number of industries. He *recently advised Amoco in* its $55bn merger with British Petroleum.

Mr Dyal's decision to join Goldman illustrates the continuing lure of the firm's partnership after its decision to postpone its stock market flotation. Earlier this year Goldman attempted to poach a small number of bankers, traders and research analysts using the offer of lucrative stock grants.

It successfully recruited Ken Wilson, vice-chairman and a member of the management committee of Lazard Frères, and Michael Carr, from his position as co-head of mergers and acquisitions at Salomon Smith Barney. Both have been appointed partner.

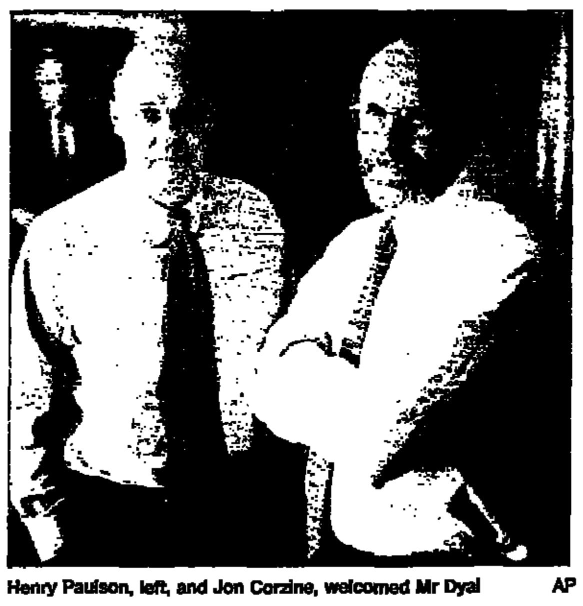
In a memo to Goldman *staff yesterday, Jon Corzine* and Henry Paulson, co-chairmen and chief executives of *the firm*, said that Mr Dyal "brings to our firm more than 11 years of experience in M&A, having worked on a wide variety of transactions and client relationships".

Mr Dyal said: "I will be very much focused on helping Goldman achieve its goal to grow its merger and acquisition and investment *banking business*."

He said Goldman's on-off flotation plan was "not a factor". He added: "For me the reason I am joining is that I have spent an enormous amount of time working in the M&A business and the culture of the firm is the most important thing."

In recent days there has *been a significant pick-up in* takeover activity in the US and Europe. Mr Dyal said: "The investment banks which can bring merger advice as well as sophisticated global capital markets *advice will be the firms that* will be involved in most of the significant merger transactions in the future."

Morgan Stanley said: "We regret the departure of Gordon Dyal, he has been a good *member of our team.*"



Henry Paulson, left, and Jon Corzine, welcomed Mr Dyal AP

Ingersoll-Rand mulls sale of pumps division

By Peter Marsh

Ingersoll-Rand, the diversified US engineering group, has signalled its interest in selling its pump business in a move that might pave the way for negotiations with KSB, a big German pump producer keen to expand in the US.

The world's $26bn-a-year pump business is a key supplier to many large industries including oil and gas, chemicals and water treat*ment. In recent years,* several big producers have merged to provide better global coverage, particularly in expanding markets such as south-east Asia, considered to have growth prospects despite short-term economic difficulties.

Ingersoll, which runs its pump business as the major*ity shareholder in a partner*ship with Halliburton, the US energy services and engineering company, is reviewing the future of the division, which has annual sales of about $1bn and is the world's fifth biggest pump maker.

Putting the division up for sale might attract the attention of KSB, the world's fourth biggest pump maker, which is keen to spend up to DM800m ($469m) on pump acquisitions, mainly to bolster its activities in the US.

KSB has refused to divulge which companies it might be interested in buying. It had no comment on whether the Ingersoll division might be a suitable candidate.

KSB, with total sales last year of DM2.1bn, most of which came from pumps, is keen to expand its annual revenues from the US, now about DM120m, tenfold over the next few years.

David Devonshire, chief financial officer of Ingersoll, said that as part of its review it might conclude that pumps did not complement the *rest of its diverse* interests. These include construction machines, golf carts, architectural fittings and refrigeration equipment *for lorries.*

"If someone came along with the right price, we might decide to sell [the pumps business]," said Mr Devonshire.

He said that as a result of Ingersoll's "more selective approach" to making and selling pumps – which led to a concentration on more *profitable parts* of the business – the pumps division was in good shape. It was showing a return on sales of about 7.5 per cent, against 4.5 per cent a year ago.

Strong jet market drives 28% jump at Bombardier

By Scott Morrison in Toronto

The rapidly growing market for regional jets has enabled Bombardier, the Canadian transport equipment manufacturer, to post a 28 per cent increase in third-quarter net earnings.

The aerospace division accounted for half of the company's sales and three-quarters of its profit.

The group, which makes aircraft, rail cars and personal recreational vehicles, said that third-quarter earnings were C$125.5m (US$81m), or 17 cents a share.

The results were slightly below some analysts' expectations of 18 cents, and Bombardier shares fell almost 2 per cent to C$20.25 by mid-session yesterday. The company had earnings of C$98.3m, or 14 cents, last year.

The manufacturer, which owns the Canadair Regional Jet and Learjet business, said the aerospace unit's third-quarter pre-tax profit rose almost 43 per cent to C$146.8m, while revenue remained at C$1.3bn.

Margins have increased after the company sold enough aircraft largely to amortise development costs.

The group's recreational products division, however, broke even as *sales fell 20* per cent on a year ago to C$332m. The company's Sea-Doo watercraft sales have slumped owing to the maturing market and because of concerns about safety. Snowmobile sales were hurt by lower-than-average snowfall in North America last winter.

Bombardier's rail car unit reported a profit of C$31.6m, compared with C$18.5m last year.

Canadian banks see the appeal of mortgage securitisation

Attitudes to the practice in the industry are changing fast, reports **Ted Jackson**

Following more than a decade of resistance by Canadian chartered banks to securitisation, the off-balance-sheet funding technique that revolutionised US banking seems finally positioned to take off.

Some Canadian mortgage banking executives foresee an avalanche of deals in the next few years, deals that promise to alter fundamentally Canada's banking and securities landscape.

More than a third of Canada's residential housing mortgages will be securitised within three years, predicts Ivan Wahl, vice-chairman of CIBC Mortgage, the mortgage arm of *Canadian Imperial* Bank of Commerce, Canada's second largest bank.

If Mr Wahl is right, a securities market of about C$100bn (US$64.6bn) will soon be born, a debt market that would be second only in size to the Canadian bond market for federal government debt.

A stunning prediction, certainly, not only because it comes from one of Canada's pioneers in the field of mortgage securitisation, but also because it represents a sharp turnround for a market that for years has been a Canadian financial afterthought.

While some executives see Mr Wahl's prediction as overly optimistic, most believe a period of rapid growth lies ahead.

"At the senior level of Canadian chartered banking, executives have latched on to securitisation as the answer to their problems," says Ian Bandeen, managing director for global securitisation at Nesbitt Burns, the Bank of Montreal's securi*ties dealing subsidiary*.

A victim of investor apathy and bank fixations on balance sheet asset growth, mortgage-backed securities have until now barely captured 5 per cent of Canada's mortgage market. While some analysts say Canadian banks remain far too concerned with asset size and *asset growth* as the key measures of success, these attitudes are now changing fast.

The rapid integration of the North American banking market is forcing Canadian bankers to give high priority to concerns that are at the top of executive agendas at US banks. Bank size will take a back seat to concerns about return on equity and return on capital.

The appeal of securitisation is that it allows financial institutions to manage their balance sheets with far less capital, boosting the key measures of return on equity and return on capital.

If Mr Wahl is right, a securities market of about C$100bn will soon be born, second only in size to the Canadian *bond market for federal government* debt

One of the cornerstones that will underpin the growth of mortgage securitisation in Canada is a shift in Canadian mortgage funding economics, a shift that has made balance sheet mortgage funding far more expensive from a return on capital standpoint.

"Consumers now negotiate big discounts off the posted mortgage rates," says Jim Robertson of Canada Mortgage and Housing Corp. "The spreads have been cut in half."

Competition has cut sharply into the spread between the rate at which banks borrow and the rate at which they can make mortgage loans. This spread is a key factor in the profitability of balance sheet mortgage lending, which is no longer delivering an adequate return on capital.

"It's better to securitise the mortgage, get it off the balance sheet and return the capital to the shareholder who can employ it more profitably," says Mr Wahl. CIBC Mortgage is already being structured to look more like a US mortgage bank, he says.

US mortgage banks generate fees as they originate and service mortgages, selling their products into the US$1,200bn mortgage-backed securities market.

The importance the CIBC top brass attach to mortgage securitisation was under*scored in a little-talked* about move made in 1995. The bank bought a small, but fast-growing, mortgage securitiser called First Line Trust. Among First Line's founders were Mr Wahl and CIBC Mortgage's current chairman Brendan Calder.

Eager to cash in on opportunities brought by the federal government's 1984 NHA Mortgage-Backed Securities initiative, First Line quickly became Canada's leading mortgage securitiser. Its off-balance-sheet funding techniques allowed it to offer mortgage rates sometimes a *half a percentage point* lower than those of its chartered bank competitors.

Seeing that First Line's price cutting was a factor in the competitive presures that have cut sharply into traditional Canadian mortgage spreads, CIBC executives were keen to harness Mr Wahl and Mr Calder's securitisation expertise.

Other Canadian banks are slowly recognising securitisation's potential as a device that can quickly boost key financial return ratios. A *multi-billion market* in privately placed credit card backed securities has developed over the past 18 months, with all six chartered banks participating.

Canadian mortgage executives are uncertain when exactly the mortgage securitisation window will open wide. One thing they note, though, is that securitised markets are just now beginning to recover from a period of intense turmoil.

RESOURCES PROFIT TO FALL 'SIGNIFICANTLY'

BHP gloomy as production dips sharply

By Stephen Wyatt in Sydney

Broken Hill Proprietary, the resources group, yesterday warned of a significant fall in its profitability for the six months ended November 1998 as a result of sharply lower steel and crude oil production and depressed crude oil and copper prices.

This gloomy near-term outlook comes just a week before Paul Anderson takes up his position as chief executive.

Poor conditions in the global steel market have seen BHP slash steel production by about 14 per cent, said Ron McNeilly, chief operating officer.

While the weaker Australian dollar has buoyed BHP's Australian commodity revenues, the cost of the depressed commodity markets has been high.

A move of 1 US cent per pound in the price of copper changes BHP's net profit by A$15m (US$9.6m), and a US$1 per barrel change in the price of oil causes a US$55m change in net profit annually, said Elaine Prior, analyst at Merrill Lynch in Sydney.

Mr McNeilly said BHP's bottom line would be hit by delays in returning Bass Strait crude production to previous levels after an explosion two months ago.

He said profits would be "significantly lower" than the A$793m, including exceptionals, last time. Results for the six months ended November 98 will be reported early next year.

Last week, Ms Prior said that BHP's profits for the quarter ended Nov 30 could be A$100m, compared with A$410m last time. Earlier this month she forecast BHP's full-year net profit at A$927m, against A$1.3bn for 1997/98 before write-downs and exceptionals.

BHP is negotiating with Japanese steel mills for next year's contract iron ore and coking coal prices. Analysts expect cuts of 12-15 per cent in coking coal prices and 7-10 per cent in iron ore prices.

Newcrest Mining forges ahead with expansion strategy

The Australian group aims to double its gold output in two years, write **Gwen Robinson and Stephen Wyatt**

Profitable new gold mines in Indonesia and Australia, aggressive cost-cutting and ongoing corporate restructuring are driving the push by Newcrest Mining to become Australia's second largest gold producer and the world's 15th largest by 2000, according to Gordon Galt, managing director.

Newcrest, which ranks about eighth among Australia's largest gold producers, has announced a target to more than double its annual gold output to 1m ounces within two years, up from 450,000 ounces in the year to June.

Central to this ambitious strategy are plans for two new gold mines and expansion of existing operations over the next two years.

But the optimistic growth projections also reflect sweeping changes to Newcrest's structure and a new emphasis on cost cutting.

Mr Galt is the first to acknowledge the doubts that linger among investors from the company's recent misfortunes. When he joined Newcrest, profits and gold production had suffered from a series of poor management decisions.

The company had lost its blue-chip status of the early 1990s. Its share price plunged from more than A$6 in early 1996 to $1.30 last December following massive cost increases at some mines and a disastrous attempt to force a merger with Normandy Mining, Australia's largest gold producer.

Investors greeted with scepticism the board's appointment of Mr Galt, who is a mining engineer with a solid background in coal but no experience in gold.

Nearly one year on, Newcrest is on track to sharply increase gold output to nearly 700,000 ounces in the year to June and its share price has nearly doubled.

The company, which has its headquarters in Melbourne, has already changed shape under Mr Galt's "refocusing strategy" to divide operations geographically into "east" and "west" and redeploy senior management to the field.

"East" encompasses Newcrest's operations in eastern Australia as well as Indonesia, while "west" covers its Telfer, New Celebration and 23 per cent-owned Boddington mines in Western Australia.

"The idea is not new – Rio Tinto and other mining companies have been pushing people back toward mine sites for some time now ... it makes sense," he said.

At Telfer, Newcrest's flagship mine, aggressive cost-cutting reduced production costs by 10 per cent this calendar year, saving A$4m ($US2.6m). In Indonesia, construction is about to start on the A$90m Gosowong gold project.

Analysts believe the mine, with its extremely high-grade ore deposit, will be highly profitable. It is due for commissioning in July 1998 – a schedule that Mr Galt says will not be threatened by Indonesia's recent political upheaval because the mine is in an isolated location.

In the current year, the critical factor in Newcrest's rejuvenation will be the progress of Cadia Hill, its recently commissioned copper/gold development in central New South Wales. With a massive, low-grade deposit and the world's largest SAG (semi-autogenous grinding) mill, capable of processing 17m tonnes of ore a year, Cadia is expected to produce 250,000 ounces of gold this year, peaking at 500,000 ounces by 2001.

Newcrest is also developing the nearby Ridgeway deposit and eyeing other potential developments in the area, as well as continuing exploration in Western Australia.

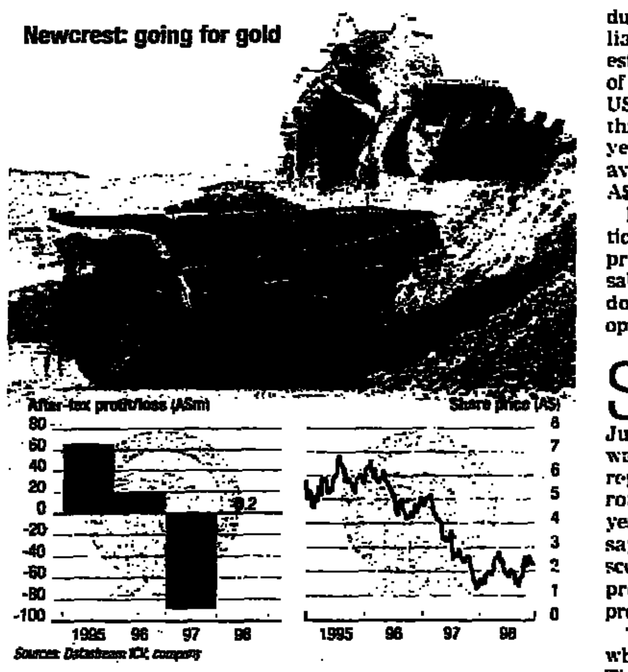
At the same time, the company has underpinned its future revenue by aggressively forward selling its next three years of gold production. The weaker Australian dollar and Newcrest's establishment of a number of forward positions before US dollar gold prices slid through $300/oz earlier this year have resulted in an average forward price of A$600/oz on 7.7m ounces.

But Newcrest can still participate in rallies in the gold price, because its forward sales book is comprised predominantly of gold put options, Mr Galt says.

Such moves helped the company edge back into the black in the year to June. Although net profit was a meagre A$174,000, it represented a sharp turnround from the previous year's loss of A$89m. Mr Galt says the year has set the scene for ramping up gold production and increasing profitability.

"People were wondering whether we could cut costs. They were asking if Cadia would last, they had concerns in Indonesia about whether we could get the new mine built and operating. Now look forward 12 months, with all these things lined up and us generating close to 900,000 ounces a year – there's going to be a lot of cash coming out of Newcrest," he says.

Newcrest: going for gold



Sources: Datastream ICV; company

Stora Enso merger wins clearance

By Greg McIvor in Stockholm

Stora and Enso yesterday received European Commission approval for their proposed merger, despite offering only limited concessions to reduce the combined group's grasp over Europe's paper industry.

The Swedish and Finnish groups – which will form the world's largest paper and board company – took five months to convince Brussels the merger did not undermine competition.

The Commission said it was satisfied Stora Enso would not enjoy a dominant share of the European newsprint and magazine paper markets. Brussels had also expressed deep unease over the merged company's strength in liquid packaging board market, of which Stora and Enso together control about 75 per cent.

However, the Commission – which at one point demanded that the companies sell one of their two liquid board mills – said it had dropped its objections after the companies offered a series of concessions.

These included Enso agreeing to sell its Pure Pak converting unit to Elopak, the Norwegian company which is Europe's second largest supplier of liquid packages. Stora and Enso also agreed to price controls on liquid packaging board for a limited period and to support any future move to lift import duties on North American imports of liquid packaging board to the European Union.

Industry experts said this gesture indicated the two companies supported the market being fully opened to foreign competition.

The sale of Pure Pak means the combined group will withdraw from the liquid packaging converting market, which is dominated by Tetra Pak of Sweden, Elopak and SIG Combibloc, the German group.

Pure Pak has annual sales of FM220m ($42.5m), corresponding to a mere 0.3 per cent of Stora Enso's turnover.

Stora and Enso said the Commission's decision vindicated their argument that liquid board was part of a wider market spanning materials such as glass and plastic.

In addition, the groups argued that their customers, such as Tetra Pak and Elopak, were free to obtain liquid board from North American suppliers.

Analysts said the concessions were less extensive than expected. Stora's most-traded A shares jumped SKr3 to SKr105 but Enso's R shares eased FM0.90 to FM45.90.

New helmsman at Kvaerner hints at change of course

Analysts have high hopes that Kjell Almskog can revive the fortunes of the Anglo-Norwegian group, writes **Valeria Sköld**

When Kjell Almskog was appointed chief executive of Kvaerner a month ago he was greeted as the saviour of the struggling Anglo-Norwegian engineering and shipbuilding company that had seen its value more than halved within a year.

On the day of his appointment on October 28, the company's shares shot up NKr16 to NKr139, after a year in which its market capitalisation had fallen 64 per cent to NKr5.8bn ($775m).

The market rejoiced over the final replacement of Erik Tonseth, who was ousted after 10 years as chief executive in mid-October.

The company was struggling to sell off non-core assets and rid itself of more than NKr12bn in net interest-bearing liabilities inherited from the acquisition in 1996 of Trafalgar House, the UK construction and shipbuilding company.

Its position was worsened further by increases in working capital.

Mr Almskog, the 57-year-old executive vice-president of the oil, gas and petrochemicals division of Swiss-Swedish engineering company Asea Brown Boveri, was hailed as an assertive genius, capable of saving Kvaerner and leading it through a massive restructuring period.

Although Mr Almskog plays down the Messianic qualities the market has ascribed to him, he nevertheless appears confident about the task ahead. "I see problems all over in Kvaerner ... but many of them are easy to fix," he said in an interview at his new headquarters in London.

"I'm systematic and build stone by stone," he said. "I'm not a miracle doctor. I'm an ordinary guy married to the same wife for 34 years. And I can confirm I cannot walk on water."

Mr Almskog is keeping his cards close to his chest in the remaining week or so before he takes up his post officially on December 7.

But the tough-talking executive did reveal that he planned a "slow and steady 15 degree change of course" for Kvaerner over the next *two to four years.*

While remaining coy about which core businesses might be sold, he confirmed that Kvaerner would become smaller. That meant selling off assets, even at a loss, if need be, Mr Almskog said.

Analysts predict he would reduce the size of Kvaerner by 30 per cent by selling the product side of its metals and pulp and paper divisions and its oil and gas products arm.

Mr Almskog said a next move would be to improve operations to survive during poor market conditions. Shipbuilding is among the sectors that have suffered a downturn in the market. He said Kvaerner would have to change the nature of the contracts it took on in the future so the company was not, for example, financing the entire cost of building a ship from the outset.

Shipbuilding accounts for about 16 per cent of the company's NKr74bn annual turnover but, of its core activities, generates the most in operating profits.

Some analysts foresee tough times ahead. "I doubt *it will remain a NKr80bn* business," said Ole Slorer, an analyst at Morgan Stanley in London, regarding the restructuring challenge at Kvaerner. "The company has a market capitalisation of NKr4.5bn, about 5 per cent of its [book] value. That's the normal pricing of a bankrupt company."

Analysts have, however, placed high hopes on Mr Almskog who left a prestigious position with ABB in Zurich, leading one of the new core businesses in a company worth $31bn in sales.

They have watched him *lift profits at ABB's oil, gas* and petrochemicals business, Kvaerner's rival.

Kvaerner, meanwhile, suffered more than NKr1bn in write-downs on project losses, particularly in its oil and gas division and its commercial satellite project, sinking the company into a NKr1.4bn net loss for the third quarter, compared with a profit of NKr43m a year earlier.

Mr Almskog's latest task is quite a change for the man who began his management career in London three decades ago, marketing soap for Procter & Gamble, *the US consumer products* company.

He returns to London this time with a Harvard degree, the experience of a significant turnround at ABB under his belt, a £7,000 annual Davidoff cigar habit and a penchant for expensive cars.

During his time at ABB, Mr Almskog built up a reputation as a tough and demanding manager. According to Jan Wennesland, executive vice president of Aker Maritime, who served five years under Mr Almskog at ABB in Norway during the 1990s: "He's a not *a soft issue person. He's a* bottom-line guy. But he creates results."

Kjell Almskog: 'I see problems all over in Kvaerner ... but many are easy to fix' Jason Orton

Statoil buy worries Saga

By Valeria Sköld in London

Saga Petroleum, Norway's third largest oil company, yesterday criticised the purchase of a 5 per cent block of its shares by Statoil, the state oil company, describing it as a threat to keeping three independent Norwegian petroleum companies.

Statoil has effectively increased its stake from 15.26 per cent to 20 per cent of the voting stock. State Street and Chase Manhattan acquired a further 6.19m Saga shares on Tuesday on Statoil's behalf, raising Statoil's holding to 29m voting right shares.

"This came as a suprise while [Statoil and Saga] were in the process of talking about co-operations," said Diderik Schnitler, Saga chief executive.

Statoil has said the move was an "interesting financial and strategic investment that would create a better basis for strengthening the co-operation between the two [companies]".

But Saga fears the move threatens its independence and says Saga's shareholders and employees would be best served by maintaining three independent Norwegian oil companies.

Industry analysts said there were also fears that Statoil appeared to be building up a position in Saga in order to fend off a possible takeover bid of Saga.

Saga operates as the only non-state majority owned Norwegian oil company, after Statoil and Norsk Hydro, which is 51 per cent owned by the state.

The government yesterday re-affirmed its commitment to maintaining three Norwegian oil companies.

Jon Ove Lindoe, of Statoil, said yesterday: "We don't see actually see how an increase from 15 to 20 per cent on behalf of a major shareholder should alter or complicate further the co-operation between the two companies."

Newbridge meets forecasts

By Scott Morrison in Toronto

Shares of Newbridge Networks were up almost 13 per cent to C$43.70 at mid-session yesterday after the Canadian networking equipment manufacturer reported its third consecutive quarterly increase in earnings, suggesting the troubled company is returning to financial stability.

The shares received an added boost when Newbridge announced it had won a contract to provide equipment that will enable China's state postal service to build its core national multimedia network.

The broadband network, to be developed in conjunction with Siemens of Germany, will enable the service to deliver voice, data and internet services in 31 provinces. Terms of the contract were not disclosed.

Earnings before exceptionals were C$47.6m (US$30.7m), or 27 cents a share, for the second quarter to November 1 – in line with expectations although down 18 per cent year-on-year. Net earnings were C$53.3m, or 30 cents.

Newbridge is implementing a big restructuring programme to restore investor confidence as it attempts to increase its share in traditional markets while capturing a larger proportion of the growing market for data network equipment.

Revenue for the quarter rose almost 6 per cent from the previous quarter to C$457m, but gains were offset by rising costs. New technology, such as its asynchronous transfer mode (ATM) platform, continued as the prime driver for growth in the company's wide area networks revenue.

Sales of ATM and frame-relay networking equipment accounted for 54 per cent of revenue, against 45 per cent last time.

Sales of its older time division multiplexing equipment rose to C$194m, the highest in five quarters.

NEWS DIGEST

ISRAEL

Koor blames economic slowdown for sharp fall

Koor Industries, Israel's largest holding company, yesterday reported sharp falls in net income for the last quarter and nine months. Telrad, its telecoms subsidiary, and a slowdown in the domestic economy stunted the company's growth. *However, its chemical* and electronics divisions which are export driven, showed significant increases. For the third quarter, Koor's revenues showed a modest increase, rising to $799.8m compared with $765.9m for the same period last year. Net income was $16.7m, more than a 60 per cent fall on last year's $36.4m. Over the nine months, revenues fell from $2.43bn to $2.32bn while net income fell more than 50 per cent, from $124.1m to $60.8m. ***Judy Dempsey, Jerusalem***

Calls boost Bezeq

Bezeq, Israel's state-owned telecommunications company, reported a surge in revenues and net income for the third quarter with international telephone calls and its cellular network driving growth. Revenues grew 12.5 per cent to Shk2.35bn ($564m). Net income jumped *76.6 per cent to* Shk228.2m. For the nine months, net income totalled Shk576m after taking a loss of Shk302m. It followed a one-off charge of Shk1bn required to finance a restructuring plan involving high redundancy costs. Revenues rose nearly 1 per cent to Shk6.8bn.

The latest results were the first year-on-year comparison since the government dismantled Bezeq's monopoly on international telephone calls by opening the market to competition. **Judy Dempsey**

DAIMLERCHRYSLER

DM250m for in South Africa

DaimlerChrysler, the German-US group, is to invest about DM250m ($147m) in a production plant in South Africa, where Daimler has manufactured Mercedes-Benz vehicles for the past 40 years. Daimler, which employs about 3,800 workers in South Africa, produced more than 11,000 Mercedes-Benz passenger cars last year in East London, including about 8,000 C-class and 3,000 E-class vehicles. **Tony Barber, Frankfurt**

SWEDEN

Gambro sells Cobe for $267m

Gambro, the Swedish medical technology company, is selling Cobe, its heart and respiratory products division, to Sorin of Italy for $267m. The disposal, to one of Gambro's main competitors in the cardiopulmonary care sector, will generate a pre-tax capital gain for Gambro of $120m. Cobe, which supplies heart-lung machines and oxygenators, had been regarded as a non-core business. Gambro specialises in renal products. **Greg McIvor, Stockholm**

Volvo talks to Volkswagen

Volvo, the Swedish automotive group, is in talks with Volkswagen over supplying car gearboxes to the German motor manufacturer. **Tim Burt, Stockholm**

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 25.11.98 / Final Prices for Trading on 25.10.98

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	27.53	15.92	16.41	1.12
0100	30.53	15.92	16.41	1.12
0130	25.00	15.92	16.41	1.12
0200	26.64	15.92	16.41	1.12
0230	20.94	15.92	16.41	1.12
0300	20.94	15.92	16.41	1.12
0330	20.94	15.31	15.80	1.12
0400	20.04	10.60	10.60	0.00
0430	20.04	10.20	10.20	0.00
0500	20.04	9.60	9.60	0.00
0530	9.34	9.50	9.50	0.00
0600	9.34	10.60	10.60	0.00
0630	9.34	14.84	15.33	1.12
0700	15.60	15.12	15.61	1.12
0730	18.68	15.16	15.65	1.12
0800	28.61	15.40	15.89	1.12
0830	34.94	26.22	26.71	1.12
0900	34.96	26.23	26.73	1.12
0930	34.98	26.16	26.66	1.12
1000	34.99	31.58	32.09	1.12
1030	34.99	31.61	32.12	1.12
1100	35.00	36.93	37.45	1.12
1130	35.02	36.95	37.47	1.12
1200	37.23	44.39	44.92	1.12
1230	63.79	52.39	52.93	1.12
1300	63.79	52.38	52.91	1.12
1330	98.58	44.15	44.67	1.12
1400	98.57	31.59	32.10	1.12
1430	34.78	31.60	32.10	1.12
1500	34.77	31.61	32.13	1.12
1530	30.25	31.68	32.22	1.12
1600	31.33	31.92	32.54	1.12
1630	61.79	41.58	43.43	1.12
1700	90.01	61.78	69.84	1.12
1730	109.78	99.12	109.89	1.12
1800	86.50	102.45	113.19	1.12
1830	60.92	84.80	92.05	1.12
1900	42.94	57.14	60.58	1.12
1930	42.47	50.30	52.04	1.12
2000	34.93	40.32	41.67	1.12
2030	30.23	35.67	36.19	1.12
2100	31.12	35.62	36.12	1.12
2130	31.11	31.58	32.05	1.12
2200	26.11	26.22	26.71	1.12
2230	18.42	20.74	21.23	1.12
2300	24.42	20.74	21.23	1.12
2330	18.42	20.74	21.23	1.12
2400	18.42	20.74	21.23	1.12

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.85/MWh becomes 1.685p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction [illegible] alterations until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon [illegible]

ELECTRICITY POWER STATION SALE TO FACILITATE MIDLANDS ACQUISITION

Natl Power plans disposal

By Andrew Taylor and Thorold Barker

National Power, Britain's second largest generator, plans to sell one of the world's biggest coal fired power stations in a bid to persuade the government to allow it to buy one of the country's largest regional electricity suppliers.

The sale of the Drax power station in North Yorkshire and purchase of Midlands Electricity supply arm is the latest in a series of large UK power industry transactions which are rapidly changing the landscape of the sector.

The sale of the Drax station is expected to raise at least £2bn ($3.3bn). National Power has agreed to pay £180m cash to GPU and Cinergy, the US joint owners of Midlands' supply business which has 2.2m customers. National Power could pay a further £20m-£40m depending upon eventual capital liabilities.

GPU and Cinergy plan to keep Midlands' distribution network. It would separate the ownership of regional transmission lines and retail supply operations for the first time in Britain.

The Midlands acquisition, due to be completed by next March, and the sale of Drax will need to be approved by Prof Stephen Littlechild, the electricity industry regulator. Peter Mandelson, trade and industry secretary, has ordered National Power and PowerGen, the two largest fossil fuel generators, to sell some of their coal-fired plant to encourage competition and protect coal sales while new trading arrangements are introduced.

PowerGen has offered to sell two 2000MW power stations, in return for being allowed to buy East Midlands, the country's third largest electricity supplier. Mr Mandelson yesterday approved these proposals.

Prof Littlechild is understood to have wanted each of the generators to sell 6000MW but was over-ruled in the case of PowerGen. The regulator said yesterday that no decision had been reached on disposals by National Power.

Keith Henry, National Power's chief executive, said there had been strong international interest in buying the company's coal plant. About a dozen potential buyers, including some from the US, have expressed interest in the PowerGen plants

The sale of Drax will reduce National Power's 21 per cent share of the UK generation market to 12 per cent, slightly less than PowerGen after its disposals. Analysts expressed surprise yesterday that the company had chosen to sell one of Europe's cleanest and most efficient coal fired plants, rather than some of its other power stations. National Power paid £640m to fit flue gas desulphurisation equipment at Drax.

Its shares fell 22p to 538p. The company also reported a 20 per cent fall in pre-tax profits to £217m for the six months to September 30.

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Competitive creed sparks power surge

Andrew Taylor analyses National Power's £180m purchase of Midlands Electricity's retail supply business

Keith Henry, chief executive of National Power

The map of Britain's former publicly owned electricity industry is being redrawn almost daily. The deal announced yesterday – National Power's £180m purchase of Midlands Electricity's retail supply business – may be dwarfed in cash terms by some recent purchases, but it is just as important strategically.

Two principal factors are driving the latest wave of takeovers and mergers. One is the phased introduction of competition for Britain's 24m domestic electricity customers, due to be completed by next June. Alongside this are plans from Stephen Littlechild, the industry regulator, for a more competitive and transparent wholesale electricity market, with the kind of futures and spot market trading common in other commodity markets.

The start of competition in other European power markets is also stimulating interest in the sector. Most European Union members will be required next February to open at least 25 per cent of their electricity supply market to competition.

Against this background, more than £8bn will be have been spent this year on acquisitions of UK electricity companies, assuming London Electricity is sold for more than £2bn to either Electricité de France, the French power monopoly, or British Energy, the nuclear generator. Generators such as National Power have become concerned that wholesale power price movements will become increasingly volatile in more liberalised markets, and want to buy retail suppliers to give them direct access to large groups of customers.

They believe this will give them greater market knowledge and flexibility to cope with electricity price swings. Long-term fixed-price electricity contracts between generators and suppliers, for example, can become a burden during cold snaps if generators do not have enough power to meet overall demand and have to buy extra, higher-priced supplies in the spot market.

Keith Henry, National Power's chief executive, said: "It obviously helps as power trading increases to have an integrated business with access to generation at one end of the market and retail supply at the other."

Through its deal with Midlands, National Power will achieves this objective as other generators such as PowerGen, Eastern and Scottish Power have also done. However, National Power's deal is unique in that the generator is buying only the regional electricity company's supply business.

In this case, the local network of distribution wires will remain in the hands of Midlands' joint owners, GPU and Cinergy of the US. The move is in line with proposals from Prof Littlechild that supply and distribution should be run by separate managements in order to prevent companies from stopping competitors supplying power along their wires. But this would be the first time that a regional supplier and distributor have been split apart under separate owners.

GPU and Cinergy intend to retain the distribution business, which in the year to March 31 generated pre-tax profits of £142.5m on turnover of £343.9m. The returns from monopoly regional distributors are attractive but are strictly regulated, and value can only be increased by improving efficiency. Supply margins, by comparison, are thin. Midlands' supply business last year generated pre-tax profits of just £19m on sales of £1.14bn to 2.2m customers.

To pave the way for its proposed purchase of the Midlands supply business, National Power is offering to sell its 4000MW Drax power station in North Yorkshire, Europe's biggest coal-fired generation plant.

The deal which most closely parallels National Power's offer for Midlands is PowerGen's purchase of East Midlands, the country's third largest electricity supplier, for £1.9bn. Here too, PowerGen, the UK's second largest fossil-fuel generator behind National Power, has offered to sell two coal-fired power stations, totalling 4000MW, in return for being allowed to purchase East Midlands.

Peter Mandelson, trade and industry secretary, yesterday approved the purchase of East Midlands by PowerGen, which has offered to sell its Ferrybridge C and Fiddler's Ferry power stations.

More high-voltage action in this sector seems likely.

On Digital aims for 350,000 by end of 1999

By Cathy Newman and Elizabeth Robinson

Gerry Robinson: bullish

On Digital, the pay-TV group, is aiming to sign up 350,000 subscribers by the end of next year, one of its shareholders, the media and leisure company Granada, revealed yesterday.

Charles Allen, chief executive of Granada, said the launch of On Digital's 30 channels earlier this month was "potentially a very, very valuable business indeed".

Granada and fellow media group Carlton Communications each own a 50 per cent share of On Digital, which broadcasts digital terrestrial television via rooftop aerials.

On Digital plans to attract 1m customers by the end of 2000, and would break-even the following year – its third full year in operation – when it aims to achieve 2m subscribers.

The figures, not previously made public, look conservative against projections from British Sky Broadcasting, the satellite company which last month started broadcasting 140 digital channels. It has said it will sign up 200,000 subscribers to its new technology by Christmas. However, some of BSkyB's digital customers are existing analogue subscribers who have upgraded to digital.

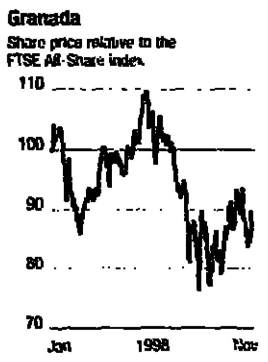
On Digital hopes to make £100m ($166m) in profits once it has signed up 3m subscribers. Mr Allen said Granada was considering installing On Digital at "a very attractive, very competitive rate" in pubs, clubs and hotels.

Mr Allen's comments came as Granada unveiled a 17 per cent increase in pre-tax profits to £773m for the year to September 26. Gerry Robinson, chairman, was bullish about the group's prospects and pledged to continue double-digit profits growth for the next three years.

Granada said proposed changes to independent television licence payments announced yesterday would save the company £30.9m next year. The group also confirmed it would sell its 4.3 per cent indirect stake in BSkyB. Operating profit in the media division, which includes ITV companies, the stake in On Digital and other pay-TV interests, rose 36 per cent to £255m.

COMMENT

Granada



Granada is going great guns. Yesterday's strong full-year results from the UK leisure and media conglomerate allayed some concerns about the cyclicality of its earnings – hence the 4 per cent rise in the shares. On sales up 10 per cent, operating profit margins have strengthened to 24.4 per cent from 22.8 per cent last year, and are among the highest in the industry. Having underperfomed by 10 per cent this year to reach a 22 per cent discount to the market on a price/earnings basis, Granada's stock is now in strong recovery mode. Much of the portfolio, such as roadside restaurants, budget lodges and the contract catering business, is living up to management boasts of resilience to a downturn in consumer spending.

But is this enough? With the disposal of its direct stake in British Sky Broadcasting Granada has shown some readiness to unlock value. This should go further. Now that the dust has settled down on its acquisitions of Forte and Yorkshire Tyne Tees television, the conditions are right to move towards the next big deal – a starburst. Although break-ups and demergers are not guaranteed to create value, splitting the group into its unrelated hotel/restaurant, rental and media components seems a natural evolution for the now-strengthened company. This should help erode Granada's current 15 per cent discount to its break-up value. And it would be good to do it from a position of strength too.

Carlton Communications

Who will be boss at Carlton Communications: Michael Green, the long-time chairman, or Steven Cain, the new youthful chief executive? The honest answer is nobody knows – and that is a touch worrying. Carlton certainly could benefit from new blood. Mr Green is a font of ideas – some good, some not so good – but he has lacked a strong foil inside the company. Indeed, until now, he has not had a chief executive at all – only a managing director. Shareholders will be watching how the relationship between the two men develops. With luck, they will make an excellent double-act. But there are two worries – from opposite directions. First, that the 34-year old Mr Cain will be too easily bossed around. Second, that a power struggle will break out as Mr Cain seeks to show he is in charge. Neither would be good for investors.

Vickers in talks to buy Ulstein

By Andrew Edgecliffe-Johnson, Charles Pretzlik and Valeria Sköld

Vickers, the UK engineering group, yesterday said it was in talks about a recommended takeover of Ulstein Holding, the Norwegian marine engineering group.

The move is the strongest indication yet that Paul Buysse, chief executive since May, intends to reposition Vickers to concentrate on marine propulsion. There have been questions over its strategy since it sold Rolls-Royce Motor Cars earlier this year to Volkswagon of Germany.

Peter Coulter, an analyst at Charterhouse Tilney Securities, said: "People have wondered what the strategy at Vickers is going to be. This is building up their strongest business." If the deal with Ulstein can be completed by the first quarter of 1999, Mr Buysse is then expected to turn his attention to selling Vickers' tanks business.

Carlyle Group of the US is known to be interested in the defence division and part of the turbine components business, but is unlikely to make any hostile move.

Vickers said it was in talks "with the aim of reaching agreement on the terms of a recommended offer for all the shares in Ulstein, as a result of which Vickers would acquire all of the businesses of Ulstein, excluding its shipbuilding division."

The impact of the Ulstein deal on Vickers' market share in propulsion makes the chances of a bid for Vickers by TI Group less likely. TI owns Lips, the propeller and marine seals business, and has considered buying Vickers' Kamewa side. Analysts would not rule out a spoiler bid from TI.

Ulstein would fill geographic gaps for Vickers, as Ulstein is stronger than it in the US and south-east Asia.

RESULTS

	Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Abacus Polar ... Yr to Sept 30	99.6	(98.9)	7.01	(10)	11.1♦	(14.8)	4.4	Jan 22	4	6.6	6
Advanced Power ... Yr to Aug 31	6.19	(5.28)	0.93	(0.89)	3	(2.9)	0.8	Feb 3	0.8	1.2	1.2
Baldwins Ind Serv ... 6 mths to Sept 30	16.4	(14)	2.31	(1.75♥)	9.6♥	(8.7)	1.2	Apr 12	-	-	-
Banner Chemicals ... 6 mths to Sept 30	21.7	(34.7)	14♥	(2.51)	9.4♦	(1.23)	0.5	Jan 15	0.5	-	1.2
Bristol Water ... 6 mths to Sept 30	39.9	(40.5)	8.67	(7.81)	100.2	(84.2)	18.5	Apr 14	17.15	-	57
CML Microsystems ... 6 mths to Sept 30	9.8	(9.4)	0.643	(0.319)	2.63	(1.96)	-	-	-	-	7
Glovend Cashless ... 6 mths to Sept 30	3.8	(3.25)	0.14	(0.243L)	0.74	(1.29L)	-	-	-	-	-
Granada ... Yr to Sept 26	4,031	(4,091)	773♥	(661♥)	60.9†	(53.6)	11.56	Apr 1	9.84	16.7	14.5
IWP Intl ♣ ... 6 mths to Sept 30	163	(114.1)	8.93♠	(10.7)	8.2†	(10.68)	2.66	Jan 23	2.42	-	5.87
Johnson Matthey ... 6 mths to Sept 30★	1,763	(1,426)	63.2♥	(58.2♥)	23	(22.1)	5.7	Feb 1	5.2	-	17.8
Kewill Systems ... 6 mths to Sept 30★	27.5	(19.3)	3.2	(3.1)	12.5	(15)	4	Apr 8	4	-	11
Morrison Construct ... 6 mths to Sept 30	195.4	(167)	7.56	(6.68)	7.71	(6.86)	1.98	Jan 4	1.8	-	5.85
National Power ... 6 mths to Sept 30★	1,353	(1,458)	217	(271♥)	14.7	(3.9L‡)	9.6	Apr 6	9	-	27
NHP ... Yr to Sept 30	25.3	(11.6)	7.77	(3.2)	9.16†	(6.25)	2.4	Apr 9	1.75	8.4	6.25
Providence Res ♣ ... 6 mths to Aug 31	0.48	(-)	0.67L	(-)	0.23L	(-)	-	-	-	-	-
Radstone Tech ... 6 mths to Sept 30	10.1	(10.1)	0.74L♠	(1.17L)	3.54L	(7.09L)	nil	-	nil	-	nil
Redime $ ... Yr to Sept 30	0.13	(0.19)	1.58L♠	(1.11L)	0.6L	(0.5L)	-	-	-	-	-
Tate & Lyle ... Yr to Sept 26	4,467	(4,651)	165.4	(159.3♠)	27.4	(22.6)	11.7	Apr 6	11.7	17	18.325✲
Victoria ... 6 mths to Sept 30	17.1	(18.8)	0.472	(0.082)	4.61	(0.82)	-	-	-	-	3.5

Investment Trusts	NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
F&C Private Equity ... 6 mths to Sept 30	139.2	(106.2)	0.277	(0.273)	1.1	(1.1)	-	-	-	-	2
I&S UK Discovery ... 6 mths to Oct 31	127.5	(153.6§)	0.488	(0.369)	1.89	(1.43)	-	-	-	-	2.65
Majedie Invs ... Yr to Sept 30	315	(345)	2.88	(3.45)	5.48	(6.58)	4.1✲	Feb 5	3.9	7.2	6.9
N Atlantic Smaller ... 6 mths to July 31	540	(523§§)	0.028	(0.247L)	0.27†	(2.37L)	-	-	-	-	-
Reabourne Merlin ... 6 mths to Sept 30	78.9	(99.8)	0.179	(0.271)	0.6	(0.9)	-	-	-	-	-

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♦On reduced capital. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ♣Irish currency. ★ Comparatives restated. ‡After windfall tax. $US currency. ✲Includes foreign income dividend element. §At April 30. §§At January 31.

Carlton chooses chief executive

By John Gapper

Carlton Communications, the media company founded and chaired by Michael Green, has appointed Steven Cain, the 34-year-old marketing director of the supermarket group Asda, as its new chief executive.

The appointment was welcomed by several investors and analysts who said Mr Cain was seen as a strong choice, despite his youth and lack of experience in the television, video and film processing operations within Carlton.

The appointment, prompted by the retirement of June de Moller as managing director, will be watched closely by investors because of questions over whether Mr Green is willing to devolve management power.

Some analysts said the fact that Mr Cain did not have an established record as a chief executive made it less likely that he would act as an independent force. Mr Green will remain executive chairman of the company.

However, others said Mr Cain was likely to complement Mr Green. "There seems to be a good chance of a collaborative relationship, so I would see it as a positive appointment," said Neil Blackley, an analyst at Merrill Lynch.

Mr Cain has worked at Asda for six years following a spell at Kingfisher, and is seen as one of a group of strong young executives under Archie Norman, Asda's chairman.

Mr Green said Mr Cain would bring "energy and enthusiasm" to the job. "We wanted someone who is on their way and wants to make his mark."

Carlton's shares have under-performed the market in recent months, amid concerns about the future of operations such as Technicolor, its video production arm, and its 50 per cent stake in the On Digital pay television group.

Carlton shares closed 9p down at 464p.

JM may spin off division

By Charles Pretzlik

Johnson Matthey, the precious metals and ceramics group, attempted to revive its flagging share price yesterday when it said it would consider spinning off its electronic materials division.

Analysts estimate the business, which supplies materials, packages and printed circuit boards to the semiconductor industry, could be valued at between £300m ($498m) and £450m ($747m).

Johnson Matthey has spent some £370m on acquisitions to build the division over the past five years.

The division has suffered heavily as a result of the worldwide slowdown in the semiconductor market, but Chris Clark, who took over as chief executive in June, said: "The first signs of recovery may have been felt in the last month or so."

The shares, which have fallen from 684p a year ago, rallied 13p to 392½p.

Johnson Matthey's move follows a strategic review of the group by Mr Clark. He said: "Our board is determined to improve shareholder value. To do this we have refocused the group's strategy." However, he denied the board had been stung into action by its investors.

Johnson Matthey is being advised by Credit Suisse First Boston on what its next step should be. The options for the business include a trade sale or a flotation on Nasdaq.

Minority shareholders condemn Astec deal

By David Blackwell

Minority investors reacted angrily yesterday after Astec (BSR), the power convertors and electronic components maker, accepted a second approach from Emerson Electric of the US for the 48.9 per cent of the shares that it does not own already.

The cash offer of 85p a share from the New York-listed electronics group with annual sales of more than $13bn, values Astec at £265m ($440m).

The offer is more than double Tuesday's closing price of 38¾p, but well below a mooted bid in January at the then market price of 111p.

That initial approach also upset minority investors, including Electra Fleming and Norwich Union. They went to the High Court to complain that the dominant shareholder was acting in a way unfairly prejudicial to other investors. They lost the legal battle, but Emerson withdrew.

Yesterday, Nick Ross of Electra Fleming, which has 4.4 per cent of Astec's shares, said minority shareholders were getting a raw deal: "We think the offer undervalues the company." He will be meeting other big shareholders in the next few days to consider their course of action.

Norwich Union, which has just over 2 per cent of the shares, said that when it backed the court action in May, it regarded 111p as inadequate.

Warburg Dillon Read, advisers to Astec for more than 10 years, resigned on Tuesday. It is understood that it did so because institutional shareholders would not support the offer.

Howard Lance, chief executive of Astec, said the board had "no choice but to take a realistic view" of the latest approach.

Support for BP merger

By Thorold Barker

British Petroleum has won overwhelming support from shareholders for what has been billed as the world's biggest industrial merger, with Amoco of the US.

The deal won approval from 99.8 per cent of those who voted, representing more than 55 per cent of the share capital.

Amoco shareholders will vote on the tie-up on December 10.

Sir John Browne, BP chief executive, said the vote "keeps us firmly on track to meet our objective of closing the deal by the end of the year".

Peter Sutherland, BP chairman, stressed the merged entity, which he described as "one of the most important global companies in the world today", would be based in the UK. This was partly in response to a shareholder's question on whether there was any chance of the merged company changing domicile to the US.

He said directors would not now exercise the option to buy back shares before the 1999 annual meeting.

EURO PRICES

EQUITIES

Holiday keeps Europe lacklustre

EUROPEAN OVERVIEW

By Khozem Merchant

European equity prices ended lacklustre as markets gave way to holiday sentiment in the US. Today is Thanksgiving day and caution characterised trading.

The FTSE Eurotop 100 index fell 10.24 or 0.38 per cent to 2,660.33 while the broader Eurotop 300 dropped 2.57 or 0.22 per cent to 1,146.87. The FTSE Ebloc 100 index, comprising stocks in countries forming part of the first wave of euro-convergence in January, gained 2.44 or 0.26 per cent to 955.97.

The leisure and hotels sector rose strongly by 3.44 per cent. Granada, the hotel and television group, led the way. Its share price rose Ecu 6.6 to Ecu 13.13 on the back of full-year figures greeted with relief by markets. Granada reported pre-tax profits up 13 per cent to £735m, pleasing the markets which feared the group would be another casualty of the general downturn in the economy. Ladbroke also firmed by Ecu 3 to Ecu 3.55.

Construction and property sectors were the other main moving sectors, rising 2.72 per cent and 2.20 per cent respectively. Typical was Bouygues, whose share price rose Ecu 5.4 to Ecu 168.90.

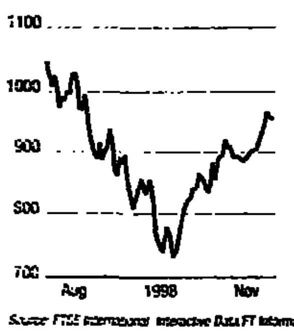
The pharmaceuticals sector rose slightly, by 0.02 per cent. Rhône-Poulenc, the drugs group, finally confirmed that it was in talks with Hoechst, the chemicals group, to merge the two groups' life sciences interests. Rhône-Poulenc's share price closed down Ecu 7 at Ecu 43.32, while Hoechst ended at Ecu 38.11, down Ecu 1.7.

On an otherwise quiet day, the most striking movers were KLM. The Dutch carrier's share price rose 3.9 per cent yesterday, up by more than 10 per cent this week, ahead of its expected announcement on Friday of a link-up with the Italian airline Alitalia.

Elsewhere, Fiat, the motor manufacturer firmed Ecu 2 to Ecu 2.67 amid heavy trading after the company forecast an upturn in its operations in Brazil, which form a large chunk of the group's overall operations.

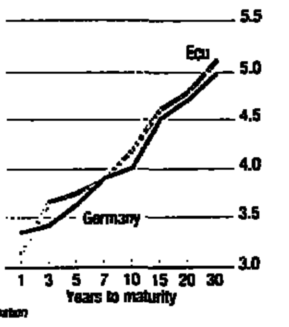
Fiat's upbeat assessment follows the recent completion of an IMF-led $41.5bn package for Brazil, the most vulnerable of the Latin American economies to the global financial contagion. Peugeot also improved by Ecu 4 to Ecu 133.

FTSE Ebloc 100
Index



Source: FTSE International/ Interactive Data/FT Information

Bond yield curve
Per cent (November 25 1998)



THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]							

THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

[illegible]								

FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]							

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

[illegible]								

OTHER INDICES

[illegible]							

FTSE Actuaries Share Indices* European series

Produced in conjunction with the Faculty and Institute of Actuaries

November 25 National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop 300	1146.87	−0.22	−2.57	2.40	30.52	1186.58
FTSE Eurotop 100	2660.33	−0.38	−10.24	2.41	38.65	953.07
FTSE Ebloc 100	955.97	+0.26	+2.44	2.21	14.85	970.16
FTSE EuroMid	1120.13	+0.20	+2.22	2.94	0.31	1158.74
FTSE EuroMid Ebloc	1170.81	+0.66	+7.73	2.46	0.02	1195.05
FTSE EuroMid Ex UK	1162.85	+0.18	+2.11	2.38	0.02	1183.98
FTSE Eurotop 300 Regions						
Eurobloc	1194.22	+0.21	+2.63	2.10	21.46	1219.55
UK	1080.98	−0.57	−6.34	2.87	49.71	1151.69
Europe Ex-Eurobloc	1109.89	−0.68	−7.63	2.72	38.46	1161.14
Europe Ex-UK	1185.37	−0.05	−0.55	2.17	19.83	1207.37
FTSE Eurotop Industry Sectors						
RESOURCES	871.04	−0.56	−4.89	3.29	29.22	910.87
Extractive Industries	789.19	+2.37	+18.25	4.42	14.54	805.65
Oil, Integrated	841.32	−0.69	−5.81	3.23	21.73	861.69
GENERAL INDUSTRIES	1037.17	−0.22	−2.24	2.65	21.29	1059.08
Construction	854.47	+2.72	+22.55	3.23	11.06	864.41
Building Matls & Merchs	906.43	+0.44	+3.96	2.47	8.96	914.26
Chemicals	857.40	−0.88	−7.59	2.82	17.45	872.54
Diversified Industrials	922.79	−0.33	−3.05	2.57	22.61	943.90
Electronic & Elect Equip	915.23	−0.76	−6.99	1.81	9.41	920.22
Engineering	849.02	+0.58	+4.90	3.94	12.32	860.02
Paper, Pckg & Printing	820.69	+0.96	+7.82	2.83	1.21	821.70
CONSUMER GOODS	1172.98	−0.82	−9.69	1.61	50.08	1240.51
Automobiles	874.98	+0.07	+0.65	2.60	10.25	883.09
Alcoholic Beverages	939.60	−1.53	−14.60	2.86	296.79	1389.73
Food Producers	971.72	−3.26	−32.76	1.57	11.84	983.14
Household Goods & Texts	1019.86	+0.61	+6.22	1.85	7.88	1027.50
Healthcare	885.41	+0.81	+7.11	1.33	13.51	898.66
Pharmaceuticals	1033.79	+0.02	+0.24	1.25	5.27	1039.40
Tobacco	1301.61	+1.01	+13.06	3.92	15.88	1319.50
SERVICES	1157.30	−0.00	−0.04	2.05	22.93	1189.51
Distribution	756.39	−0.90	−6.90	2.87	11.37	764.88
Leisure & Hotels	754.30	+3.44	+25.08	3.31	12.27	764.17
Media	992.00	+0.25	+2.51	2.24	10.68	1002.60
Retailers, Food	1038.96	+0.26	+2.72	1.98	14.17	1053.98
Retailers, General	962.74	−0.61	−5.91	3.26	20.46	982.60
Telecommunications	1093.95	−0.46	−5.01	1.79	13.52	1107.77
Breweries, Pubs & Rests	768.85	+0.38	+2.90	3.51	16.00	782.45
Support Services	941.53	+0.98	+9.12	1.56	9.87	951.52
Transport	962.82	−0.21	−2.06	2.59	18.24	980.57
Information Technology	888.33	+0.72	+6.37	0.41	2.33	890.45
UTILITIES	1460.34	−0.20	−2.94	3.07	57.04	1543.54
Electricity	1093.52	−0.13	−1.46	3.26	27.84	1124.37
Gas Distribution	1208.90	−0.41	−4.97	1.55	93.32	1328.67
Water	1050.19	−0.18	−1.92	4.89	38.72	1090.30
FINANCIALS	1239.90	+0.06	+0.80	2.64	27.52	1273.28
Banks,Retail	862.82	+0.40	+3.43	3.39	13.20	874.65
Insurance	956.35	−0.71	−6.84	1.45	11.79	967.89
Life Insurance	1115.85	+0.22	+2.44	1.75	12.98	1130.44
Other Financial	875.84	+1.31	+11.36	2.21	15.95	890.46
Investment Companies	917.03	−2.16	−20.26	1.48	20.65	934.18
Property	714.68	+2.20	+15.41	3.50	16.01	727.81

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FTSE EUROTOP 300

Name	Price (Ecu)	Chge +or−	Mkt cap Ecu(bn)	Vol (m)	Yld
[illegible]					

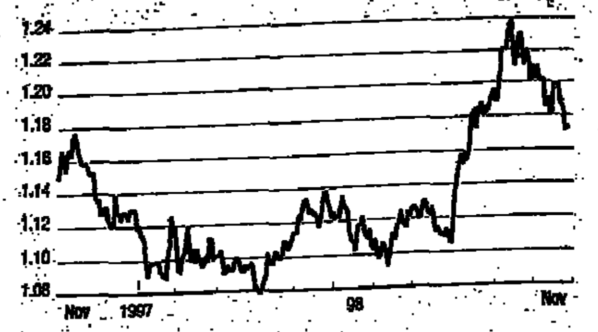
CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

Nov 25	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.050611	+0.0010	+0.01	−0.0006	+0.00
Belgium	BEF	41.201630	+0.0099	+0.02	−0.0092	−0.02
Czech Republic	CZK	35.860764	−0.0795	−0.22	+0.2189	+0.61
Denmark	DKK	7.594010	+0.0017	+0.02	+0.0013	+0.02
Finland	FIM	6.072232	+0.0001	+0.00	−0.0004	−0.01
France	FRF	6.695704	−0.0006	−0.01	+0.0002	+0.00
Germany	DEM	1.997055	+0.0001	+0.01	−0.0001	−0.01
Greece	GRD	335.066365	+0.0379	+0.01	−0.3611	−0.11
Hungary	HUF	258.549890	+0.3459	+0.13	−0.9252	−0.36
Ireland	IEP	0.803180	−0.0000	+0.00	−0.0001	−0.01
Italy	ITL	1976.983602	−0.0673	+0.00	+0.3159	+0.02
Luxembourg	LUF	41.201630	+0.0099	+0.02	−0.0092	−0.02
Netherlands	NLG	2.251504	−0.0001	+0.00	−0.0004	−0.02
Norway	NOK	8.807097	+0.0387	+0.44	−0.0722	−0.81
Poland	PLN	4.055730	−0.0078	−0.19	−0.0767	−1.86
Portugal	PTE	204.760501	−0.1985	−0.10	−0.0542	−0.03
Romania	ROL	11885.445899	+64.4962	+0.55	+76.6991	+0.65
Russia	RUB	21.028412	−0.0595	−0.28	−1.2118	−5.46
Slovakia	SKK	42.981723	−0.1642	−0.38	−0.3382	−0.78
Spain	ESP	169.867395	+0.0219	+0.01	+0.0298	+0.02
Sweden	SEK	9.618478	+0.1685	+1.76	+0.0205	+0.21
Switzerland	CHF	1.650281	+0.0023	+0.14	+0.0056	+0.34
United Kingdom	GBP	0.704891	−0.0003	−0.04	−0.0108	−1.51
ECU	ECU	1.014518	+0.0009	+0.09	−0.0013	−0.13
Americas						
Brazil	BRL	1.404042	+0.0013	+0.10	−0.0223	−1.57
Canada	CAD	1.813832	−0.0003	−0.02	−0.0474	−2.55
Mexico	MXN	11.634745	+0.0135	+0.12	−0.2638	−2.22
United States	USD	1.171499	−0.0001	+0.00	−0.0261	−2.18
Pacific/Middle East/Africa						
Australia	AUD	1.830350	+0.0077	+0.42	−0.0293	−1.58
Hong Kong	HKD	9.070685	−0.0018	−0.02	−0.2039	−2.20
Japan	JPY	142.840907	+1.4933	+1.06	−2.4690	−1.70
Singapore	SGD	1.921142	+0.0037	+0.19	−0.0334	−1.71
South Africa	ZAR	6.653530	+0.0017	+0.03	−0.1431	−2.11

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3384, FRF 0.2217, ITL 0.1823, NLG 0.0577, BEF 0.0386, ESP 0.0946, IEP 0.0116, PTE 0.0155, ATS 0.0328, FIM 0.0187.

Synthetic Euro against the dollar
$ per Euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

Nov 25	Fixed rate	Market rate	Diff fxd v mkt %	Week ago %	Forward rate	Forward int rate	Diff int rate v DEM
Austria	7.03552	7.0357	+0.00	+0.00	7.0359	3.56	+0.03
Belgium	20.6255	20.6312	+0.03	+0.04	20.6301	3.47	−0.06
France	3.35386	3.3528	−0.03	−0.04	3.3528	3.53	+0.00
Finland	3.04001	3.0406	+0.02	+0.02	3.0409	3.63	+0.10
Ireland	0.402676	0.4022	−0.12	−0.12	0.4023	3.79	+0.26
Italy	990.002	989.9396	−0.01	−0.03	990.1271	3.73	+0.20
Luxembourg	20.6255	20.6312	+0.03	+0.04	20.6301	3.47	−0.06
Netherlands	1.12674	1.1274	+0.06	+0.07	1.1272	3.35	−0.18
Portugal	102.505	102.5312	+0.03	+0.05	102.5399	3.62	+0.09
Spain	85.0722	85.059	−0.02	−0.04	85.0811	3.8	+0.27
Germany	1		+0.00	+0.00		3.53	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3; forward rates are exchange rates to 31/12/98 interpolated from market quotes; forward interest rates are those implied by these forward exchange rates; Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98; DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

INTEREST RATE SWAPS

Nov 24	D-Mark Bid	D-Mark Ask	Ecu Bid	Ecu Ask	£ Stlg Bid	£ Stlg Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	3.46	3.49	3.51	3.55	0.00	0.00	5.09	5.12	0.36	0.39
2 year	3.49	3.52	3.50	3.54	6.04	6.06	5.16	5.19	0.43	0.48
3 year	3.59	3.62	3.60	3.64	5.97	6.01	5.21	5.24	0.54	0.57
4 year	3.71	3.74	3.72	3.76	5.92	5.96	5.25	5.28	0.65	0.68
5 year	3.87	3.90	3.88	3.92	5.83	5.87	5.29	5.32	0.77	0.80
6 year	4.02	4.05	4.02	4.06	5.76	5.80	5.34	5.37	0.90	0.93
7 year	4.16	4.19	4.16	4.20	5.72	5.76	5.40	5.43	1.02	1.05
8 year	4.29	4.32	4.29	4.33	5.68	5.72	5.45	5.48	1.15	1.18
9 year	4.40	4.43	4.40	4.44	5.65	5.69	5.51	5.54	1.29	1.32
10 year	4.48	4.51	4.48	4.52	5.63	5.67	5.56	5.59	1.42	1.45
12 year	4.63	4.66	4.63	4.67	5.61	5.66	5.66	5.69	1.67	1.71
15 year	4.82	4.85	4.82	4.86	5.58	5.64	5.75	5.78	1.91	1.95
20 year	5.03	5.06	5.03	5.07	5.55	5.62	5.84	5.87	2.11	2.16
25 year	5.16	5.18	5.15	5.19	5.53	5.60	5.82	5.85	2.18	2.23
30 year	5.21	5.24	5.21	5.25	5.52	5.60	5.80	5.83	2.28	2.33

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months LIBOR. £ and Yen quoted on a semi-annual actual/365 basis against 6 months LIBOR. D-mark and Ecu quoted on annual bond 30/360 basis against 6 month LIBOR with the exception of the 1 year rate which is quoted against 3 months LIBOR. Source: Intercapital Brokers Ltd.

EUROZONE CORPORATE BONDS

Nov 25	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible Issues								
Belgium (Kingdom of)	03/08	5.750	N/A	111.180	4.27	+0.01	−0.12	+0.07
France (Rep of)	04/08	5.250	AAA	108.710	4.11	+0.01	−0.13	−0.09
Italy (Rep of)	05/08	5.000	AA	105.240	4.32	+0.04	−0.15	+0.12
Portugal (Rep of)	06/08	5.375	AA−	107.420	4.40	−0.01	−0.15	+0.20
Euro Issues								
Abbey Natl Treas Srv	02/03	4.875	AA	103.820	3.87	+0.00	−0.12	+0.11
Gen Electric Cap Crp	10/04	5.500	AAA	108.020	3.94	+0.01	−0.08	+0.13
Oest Kontrollbank	04/08	5.250	AAA	106.600	4.38	+0.02	−0.14	+0.18
Cred Local de France	04/08	5.250	AA+	105.120	4.58	+0.00	−0.17	+0.36
Ecu Issues								
Bayer Hypo & Wch Bk	07/01	5.000	AA−	103.430	3.59	−0.17	−0.22	−0.08
Cred Foncier France	03/04	8.375	A	118.605	4.36	+0.00	−0.12	+0.55
Euro Inv Bank	04/04	5.250	AAA	107.320	3.72	−0.04	−0.25	−0.09
ABN Amro Hldg. NV	04/07	6.375	AA−	110.953	4.76	+0.01	−0.22	+0.67

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Emu "in" sovereigns and fungible into one big Euro issue 1/1/99; Euro issues are issued in the new currency; Ecu bonds are issued in Ecus but convert to Euros 1/1/99.

GOVERNMENT BOND SPREADS vs ECU

Nov 25	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"Ins"						
Austria	−0.10	+0.03	+0.19	−0.02	−0.46	+0.16
Belgium	−0.13	+0.00	+0.06	+0.12	+0.05	+0.09
Finland	−0.19	+0.08	+0.19	+0.13	−0.47	−0.79
France	−0.18	−0.10	−0.09	−0.07	−0.07	−0.15
Germany	−0.20	−0.12	+0.01	−0.18	−0.08	−0.13
Ireland	−0.03	−0.04	+0.05	+0.12	+0.19	+0.55
Italy	+0.03	+0.06	+0.13	+0.17	+0.22	+0.16
Luxembourg	−0.13	+0.00	+0.06	+0.12	+0.05	+0.09
Netherlands	−0.11	−0.06	+0.04	−0.09	+0.05	−0.14
Portugal	−0.04	+0.14	+0.21	+0.16	+0.35	+0.20
Spain	−0.21	−0.02	+0.20	+0.25	+0.09	+0.14
"Outs"						
Denmark	+0.36	+0.41	+0.37	+0.22	−0.10	+0.61
Greece	+6.37	+4.99	+3.85	+3.27	+2.51	+2.19
Sweden	+0.25	+0.31	+0.38	+0.29	+0.24	−0.08
UK	+1.79	+1.04	+0.98	+0.62	−0.01	−0.53

Source: Interactive Data/FT Information. Table takes consensus convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

Nov 25	S & P rating	Red date	Coupn	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/08	5.000	DEM	+0.14	+0.10	+0.22
France Telcom	AA+	11/06	6.250	FRF	+0.20	+0.23	+0.23
Halifax	AA	07/07	5.625	DEM	+0.41	+0.42	+0.37
Ing Bank NV	AA−	01/08	5.500	NLG	+0.32	+0.28	+0.33
Bayer Hypo W Bk	AA−	02/02	6.750	ITL	+0.25	+0.17	+0.18
Cred Foncier	A	02/03	7.250	DEM	+0.45	+0.44	+0.44
Thomson-Brandt Int	A−	03/04	6.375	FRF	+0.51	+0.51	+0.49
Generale des Eaux	N/A	03/04	6.250	FRF	+0.41	+0.41	+0.38
Bank of China	BBB	07/99	7.125	DEM	+1.59	+1.99	+2.54
Natl Bk of Hungary	BBB−	08/01	9.000	ATS	+0.63	+0.75	+1.53
Korea Dev Bank	BB+	11/02	5.625	FRF	+5.63	+5.92	+8.71
Argentina	BB	04/08	8.125	XEU	+5.23	+5.27	+5.79

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

How to

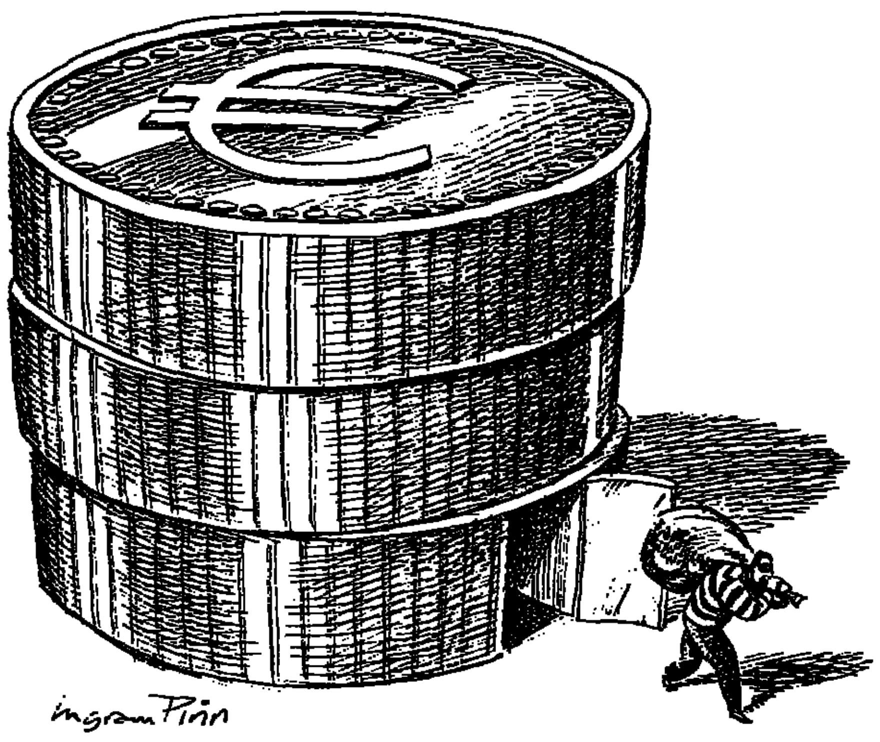
Cards hoping to cash in on the

A manager's guide to the euro

FRAUD

How to stop the silent thieves

The launch of the euro poses opportunities for many, not least dishonest consultants and employees who can crawl through your systems, stealing money in ways that are difficult to detect, warns **John Mason**



The introduction of the euro is set to open up new money-making opportunities for many across the European Union. That is the good news. The bad news is that, unfortunately, some of the best breaks on offer will be available to criminals.

The launch of the new currency will present fresh ways for companies to be defrauded – but awareness of these risks remains relatively low, fraud experts agree.

Coping with the logistics of handling the new currency is enough in itself to exhaust many a finance director. In many companies most attention has focused on the "millennium bug" which threatens to paralyse computer systems in the year 2000.

Against this background, it is perhaps understandable that the threat of increased fraud posed by the euro has been overlooked by many companies. However, this remains a bad mistake, say fraud experts.

Adam Bates, a partner with KPMG specialising in fraud prevention, said: "The average company has no real idea of the risks it is running from fraud. Top management don't appreciate it. The recession is coming and they focus on that. They may have focused on the year 2000 problem, but only because they have read about it in the newspapers."

Speaking at a recent conference in Brussels on fraud and the launch of the euro, Mr Bates singled out the main threat that will face companies from the new currency – fraud by dishonest insiders.

The internal threat comes from two groups of people – employees and outside consultants who are particularly well-positioned to take advantage of poor controls and security, he argued.

Outside consultants, particularly those brought in to handle computer problems or change currency conversion programmes, are well-positioned because they are frequently given wide access to companies' internal systems while little or no checks are generally made about their background.

"This is the biggest risk. With all these consultants crawling through your systems, you don't really know who they are. Consultants get wonderful access to the inner workings of companies yet nobody asks questions. They can wander around the corridors wearing funny clothes and funny hair and all people say is 'Oh, he's a consultant'. and leave them alone. Some will be planting time bombs of some sort, I don't doubt it," he said.

Consultants are given wide access to companies' internal systems while little or no checks are generally made about their background

The euro will leave companies open to a number of possible frauds from the start of next year when it runs in parallel with national currencies. All core financial activities within a company will be vulnerable from accounting through to payroll systems, he said.

The main key risks areas include:

- Manipulation of currency conversion systems. Even internal auditors are unlikely to spot where exchange rates have been altered, he warned.
- Salami frauds where the lack of knowledge about the euro enables tiny amounts to be defrauded on each of a large number of transactions. The stolen money is then put into a suspense account before being removed by the fraudster.
- Credit frauds where credit thresholds are dishonestly raised and then used to the full.
- Attacks on computers. Few companies have the internal resources to carry out the changes to computer systems to effect currency conversions with the euro. Outside consultants are therefore given wide access to systems. Virtually unlimited access means a dishonest consultant can attack almost any transaction-carrying system within a company to mount a fraud.

Sarah Evans, a partner with Ernst & Young's fraud prevention unit, is in broad agreement over the nature of the threat posed by the launch of the euro. The main threat has always been from insiders and will remain so, she said. Procurement contracts, particularly for high volume, low-value goods such as computer chips, are one typical area for fraud since they rely upon inside involvement, she added.

The main scope for frauds will be between January 1 1999 and 2002 when both national currencies and the euro are running in parallel, she said. The withdrawal of national currencies should simplify the challenges faced by companies although complacency should be guarded against afterwards.

The current state of awareness remains a problem, particularly in small and medium-sized businesses unused to frequent dealing with companies in other EU member states.

Uncertainty about UK participation in European monetary union has left British businesses even less focused on the problems than their EU rivals, she said. There is a lack of awareness of the central role the euro will play in all currency transactions while the complexities of invoicing in both sterling and the euro will prove open to abuse.

She and Adam Bates both reiterate the best way of combating potential fraud is to understand the impact of the euro on business, understand how computer systems will be effected, and reinforce basic controls such as checking who is performing key tasks and ensuring proper segregation over jobs such as contract tendering.

Sarah Evans warns of the consequences of ignoring the problem. "People are currently more concerned about the recession and are cutting back on controls to save money.

"If they think they can change to the euro without putting resources into it they will run into problems."

Cards hoping to cash in on the euro

A manager's guide to the euro

Why are payment card companies getting so excited about the introduction of the euro next year?
Because they see it as a unique opportunity for their customers to get used to the new currency before euro notes and coins are introduced in 2002. Business people and holidaymakers will use cards and travellers cheques to pay for goods and services in euro until then. The banks think this will help them achieve their long-term aim of reducing cash in circulation.

I have a credit card. How will I be billed – in euros or national currencies?
Within the euro-zone, you should be able to choose.

Why would I opt for euros?
Well, if you are paid in euros and paying for goods in euros, it would make sense. Much depends on how quickly retailers and other outlets, such as hotels and restaurants, switch their card terminals to euros. Paying in the new currency should certainly be attractive if you travel in more than one country: it will make pricing more transparent.

Will it be possible to pay in euros immediately using my card?
No, it will depend on how quickly retailers, restaurants etc adapt their terminals. Some countries will move quicker than others. According to Peter Warner, head of the introduction of the euro at Europay, the European payments system and partner of MasterCard, says there is a "danger that not a lot will happen till the end of the three-year transition period, and then there's a sort of big bang when it all happens at once".

Will it be cheaper paying by credit card when the euro is introduced?
It should be, because card issuers will not be allowed to charge currency conversion costs for transactions that involve changes between euros and national currency units.

Moreover, any additional processing and authorisation charges will have to be spelt out. That is a change from the present system where all charges – up to 2.75 per cent of the transaction value – are blended into the difference between the amount you pay abroad and the amount you see on your bill back home.

"It should be just like a domestic transaction today," says Henri Ruff, head of the European single currency unit at Visa International. "If you pay 30 euro at the till, you should see 30 euro on your bill." However, he points out a charge does not necessarily have to be made on a per-transaction basis: it could take the form of an annual charge.

Will I be issued with a new card?
That is most unlikely. However, some banks may issue new cards if they discern a marketing advantage.

What about the impact on members of the "out" countries, including the UK?
They will notice very little difference. Effectively the euro is just another currency, like French francs or German marks. That means charging and billing procedures will remain unchanged.

However, some banks in the "out" countries may issue business euro cards for companies with employees travelling frequently in Europe. The National Westminster Bank plans to issue just such a card, where billing will be in euros, next February.

What about debit cards?
The issues are the same as with credit cards. But remember, you will not be able to withdraw euros as cash from a cash machine until 2002.

Will there be any changes for banks at the acquiring end, ie, in their relationships with retailers?
Yes, at the moment if a retailer operates in more than one European country, it has to have separate relationships with a domestic bank in each country. From next year, it will be able to choose one bank for all its pan-European operations.

What about the electronic cash cards being developed, such as Visa Cash, Proton, and Mondex?
There are more than 20 electronic purse schemes in operation throughout Europe, but none is yet easily usable in more than one country. The challenge will be to change this before 2002, so that you can use an electronic cash card in a French parking meter as easily as a German one.

"Cards are going to have to position themselves to be at least as useful as the euro, otherwise euro-cash and coins will win out," says Richard Rolfe, editor of European Card Review. He warns this could be a costly exercise. "There is no real demand for a cash substitute or money to be made from providing one. But banks will have to take it on the chin as a way of getting people to switch from cash and cheques towards cards and electronic payment."

What about the humble travellers cheque?
Visa and Europay will be introducing euro-denominated travellers cheques from January 1. Visa, for example, will offer denominations of 20, 50, 100, and 500 euro, available for use in all the euro-zone countries.

But won't I have to change them into the local currency first?
Hopefully, not. You should be able to pay directly for goods and services at sales locations that accept euros.

Won't using my card be easier?
Possibly, but there will be some places that won't accept cards, but will accept travellers cheques.

Christopher Brown-Humes

Austria in 10-year $500m offering

INTERNATIONAL BONDS

By Khozem Merchant

The dollar sector was active yesterday as borrowers sought to complete deals ahead of today's Thanksgiving Day holiday in the US.

Austria led the way with a $500m issue that followed its E750m bond issue a day earlier. Austria's recent borrowing has been mostly in Ecu, and yesterday's deal was its first dollar offering since July 1996.

The 10-year bond, arranged by Deutsche Bank, was priced to yield 47 basis points over US Treasuries and traded slightly higher after issue. The deal was absorbed mostly by European investors, with 10 per cent bought by Asian central banks.

The issuance of 10-year paper has been modest recently, but bankers say this could pick up as investors try to extend the duration of their portfolios.

For example, there is a steep curve in yields between five-year and seven-year bunds. Investors are therefore extending durations from five-year to seven-year paper and are picking up 23 basis points in yield, according to bankers.

Nestlé, the Swiss food company, was the other main dollar borrower yesterday, issuing a $250m bond. Priced to yield 40 basis points over the relevant US Treasury, the issue tightened sharply in secondary trading and came in to 35 basis points.

The issue was bought by European institutional and retail investors, with the Swiss leading the way. J.P. Morgan was the lead arranger.

The recent strong demand for dollar issues has largely focused on five-year paper. Sentiment has been helped by investors' perception that there is value in the current spreads, and yields have improved after recent lows.

Countrywide Home Loans, a leading US residential mortgage provider, made its debut in the D-Mark market with a DM750m offering. The deal attracted surprisingly little interest in Germany, with German investors accounting for only 20 per cent of the issue.

Bankers say Countrywide is keen to broaden its investor base because of a possible expansion into the European market. The remainder of the issue was absorbed by European institutions.

The company has previously relied on private placements; yesterday's issue, co-led by Deutsche Bank and Lehman Brothers, was its first public deal.

The seven-year paper, rated A3, was priced to yield 140 basis points over the relevant German bund, consistent with similarly rated debt.

Recently issued paper by Household Finance, a comparable US borrower rated one notch higher, is trading at 128 basis points over the German bund.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Metris Master Tst 98-2(a)‡	500	(a1)	100.00	Nov 2000	0.25	-	Chase Securities
Metris Master Tst 98-3(a)‡	500	(a2)	100.00	May 2002	0.30	-	Chase Securities
Republic of Austria	500	5.25(s)	99.209R	Oct 2008	0.325R	+47(4¾Nov08)	Deutsche Bank
Nestlé Holdings UK plc	250	5.00	99.706R	Dec 2003	0.25R	+40(4¼Nov03)	JP Morgan Securities
Rabobank Ireland	250	5.00	99.725R	Dec 2001	0.1875R	+43(5⅝May01)	Warburg Dillon Read
Royal Bank of Canada‡	250	(b)	99.957	Jun 2000	0.075	-	RBC DS Global Markets
B de Galicia y Buenos Aires	100	10.0#(s)	100.00R	Dec 2000	0.50R	+537(Wi 5yr)	Goldman Sachs Intl
Suedwest LB(c)	94	4.00#	97.00	Dec 2002	0.6383	-	Wako Intl(Europe)
Crédit Local de France	70	5.25	101.47	Jan 2002	1.375	-	BIL
Dresdner Finance(d)	50	5.875	101.767	Apr 2003	undiscl	-	Dresdner KB
D-MARKS							
Countrywide Home Loans	750	5.25	99.634R	Dec 2005	0.40R	+140(Oct05)	Deutsche/Lehman Brothers
STERLING							
World Bank(f)	100	6.50	103.403	Jan 2008	0.25	-	CSFB
Alliance & Leicester plc	99.84R	(g)	99.94R	Dec 2002	0.15R	-	Tokyo-Mitsubishi Intl
SWISS FRANCS							
GECC(h)	*100*	*2.25*	*102.10*	*May 2002*	*1.75*	-	*Banque Paribas(Suisse)*
Province of Buenos Aires	75	7.75	100.25	Oct 2003	2.00	-	CSFB
CANADIAN DOLLARS							
Province of Alberta	100	5.00	99.21R	Dec 2002	0.225R	+12(8½Apr02)	TD Securities

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Secured on credit card receivables originated by Direct Merchants Bank. a1) Legal maturity: 25/10/04. 1-mth Libor +55bp. a2) Legal maturity: 20/4/06. 1-mth Libor +65bp. b) 3-mth Libor +5½bp. c) Long last coupon. d) Fungible with $500m. Plus 235 days accrued. f) Fungible with £775m. Plus 331 days accrued. g) 3-mth Libor +3½bp. h) Fungible with SFr700m. Plus 218 days accrued. j) Fungible with SFr200m. Plus 60 days accrued. s) Short 1st coupon.

JGBs fall sharply on fears of oversupply

GOVERNMENT BONDS

By Arkady Ostrovsky in London and John Labate in New York

Japanese government bonds fell yesterday by almost a point as fears mounted that Japan could face a widening budget deficit, leading to an oversupply of JGBs.

The Japanese government warned on Tuesday it could face a Y10,000bn shortfall in central and local government taxes, and said it could increase monthly JGB sales from Y1,400bn to Y2,000bn.

Kit Juckes, at NatWest Capital Markets, said: "JGBs are poised for a significant sell-off. Bond purchases by the Bank of Japan have been holding bond prices at unrealistic levels, but the prospects of even more fiscal easing is getting people to sell the bonds."

The Japanese long-bond future was down 0.83 to 137.6 in late trading in London.

Jeremy Hawkins, at Bank of America, said: "There is definitely a shift in sentiment. Yields on JGBs are looking desperately unattractive at the moment and will have to rise."

In Europe, most government bonds ended slightly lower or unchanged on extremely low volumes ahead of the Thanksgiving holiday in the US.

The December German bund future weakened in early trading but closed two basis points higher at 113.88. However, economists said investor appetite had been weakening and the Bundesbank managed to issue only DM12bn of the 4.125 per cent 10-year benchmark bonds, DM3bn less than expected.

Andrew Roberts, of Merrill Lynch, said: "We are getting German supply, but there is no enthusiasm in the market for this paper."

In the UK, the December contract in the 10-year gilt future closed 0.15 higher at 116.10, with the longer end of the curve outperforming the shorter end by almost 4 basis points in the cash market. The market was propped up by the successful tap of the 15-year £450m index-linked bond.

US Treasury trading ended early in advance of the Thanksgiving Day holiday. By 2pm in New York, the benchmark 30-year bond had gained 11/32 to 100 11/32, sending the yield down to 5.186 per cent. Among shorter-term issues, the 10-year note was unchanged at 99 31/32, yielding 4.834 per cent and the two-year note was down 1/32 to 99 31/32, yielding 4.641 per cent.

"We're seeing a continuation of curve-flattening," said Marcello Frustaci, senior vice-president and trading manager at Daiwa Securities in New York.

The US labour market showed signs of tightening with the release of weekly unemployment claims figures. For the week ending November 21, first time unemployment insurance claims fell by 39,000 to a level of 300,000, below analyst expectations.

In a separate release, personal income was up 0.4 per cent in October, and consumption expenditures climbed 0.5 per cent.

Tatarstan defaults on loan interest payment

By Arkady Ostrovsky

Tatarstan, an oil-rich autonomous republic within the Russian federation, yesterday defaulted on a $100m loan from ING Barings.

The move prompted Standard & Poor's, the international credit rating agency, to withdraw its long-term currency rating on the republic's debt.

Tatarstan, which previously had a CC rating, failed to pay an interest payment on a loan that was due yesterday.

The central Asian republic is one of the first republics within the Russian federation to have defaulted on repayments of its foreign currency debt.

The default is a repercussion of Russia's financial crisis, which peaked in August when the country simultaneously devalued the rouble and effectively defaulted on its domestic debt.

Tatarstan's budget has been severely crippled by the financial problems of Tatneft, one of Russia's biggest oil companies and the largest taxpayer to the republic's budget.

Separately, the London Club of commercial creditors approved Russia's plan to reschedule a $724m interest payments on PRINs, which falls due on December 2.

Under the new arrangement, Russia will issue Interest Arrears Notes (IANs) to cover cash interest payments on the PRINs.

Both PRINs and IANs are part of the Soviet debt inherited by Russia in 1991.

Russia still intends, however, to pay $216m interest payment on IANs.

SOVEREIGN DEBT DEAL TO SET BENCHMARK

China plans to relaunch $500bn bond

By Khozem Merchant in London and James Kynge in Beijing

China is to test the global debt market with the relaunch of a $500m bond that was postponed after the global financial crisis in July.

If successful, the bond would be China's first since October 1997 – when it launched a 30-year $100m global bond – and the first by an Asian sovereign since Korea's issue at the start of this year.

A series of roadshows to gauge investor appetite will start in Hong Kong on Monday and continue in London and the US over the next 10 days.

Goldman Sachs and Credit Suisse First Boston have retained the mandate to lead-manage the issue.

With sentiment improving towards emerging market debt in recent weeks, bankers said China was keen to "establish a benchmark in the sovereign market" which, if successful, could signal a return of Chinese corporates to international debt markets early next year.

China has been eager to return to the market, in part because foreign direct investment in the country is expected to falter next year, following a significant reduction in lending by foreign commercial banks at a time when Beijing has unveiled ambitious infrastructure spending plans.

Bankers in Beijing said they were concerned that the proceeds of the sovereign bond could be used in part to inject capital into many of China's shaky international trust and investment corporations (Itics), some of which have recently defaulted on repayments of foreign loans.

Concern over Itics, of which there are more than than 240 in China, intensified after the closure of the Guangdong Itic in October.

Bankers say China was reluctant to return to the market until the dust had settled over the investment corporations and, more broadly, sentiment for emerging market debt had become more positive.

"After the IMF-led $41bn package for Brazil [earlier this month], the tone in emerging markets has improved," said a banker in London.

Korean, Thai and Philippine debt has performed well recently, while Argentina and Uruguay have tapped the markets with big issues. The Philippines is planning issues for early next year.

Improved investor sentiment has helped tighten the spread on China's existing debt. Its 2006 paper is trading to yield 300 basis points over US Treasuries while the *five-year paper is trading at* 175 basis points over Treasuries.

This compares with a low reached in July, when both instruments were trading to yield 400 basis points over Treasuries.

Chinese bankers indicated that a spread of 300 basis points above US Treasuries would be considered too high for sovereign borrowers, but one nearer 200 basis points could be acceptable.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Nov 25	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	108.1329	4.67	−0.05	+0.05	+0.30	−0.36
	05/08	8.750	127.0468	5.17	−0.08	−0.04	+0.16	−0.85
Austria	07/00	5.875	103.6100	3.54	+0.02	+0.01	−0.02	−0.84
	01/08	5.000	105.5500	4.25	+0.01	−0.08	−0.19	−1.30
Belgium	01/00	4.000	100.6100	3.44	+0.03	−0.01	-	−0.84
	03/08	5.750	111.1800	4.27	+0.01	−0.04	−0.12	−1.34
Canada	12/00	5.000	100.1200	4.94	+0.04	+0.10	+0.35	+0.76
	06/08	6.000	105.9900	5.19	+0.04	−0.05	+0.14	−0.28
Denmark	11/00	9.000	109.3600	3.92	−0.01	−0.05	−0.18	−0.81
	11/07	7.000	118.1700	4.49	+0.01	−0.10	−0.24	−1.45
Finland	01/99	11.000	100.9294	2.91	−0.03	−0.15	−0.17	−1.34
	04/08	6.000	112.9760	4.29	-	−0.10	−0.25	−1.40
France	07/00	4.000	100.9546	3.37	−0.02	−0.08	−0.05	−0.94
	10/05	7.750	123.5460	3.80	-	−0.05	−0.09	−1.39
	10/08	8.500	134.9800	4.12	+0.01	−0.06	−0.14	−1.35
	04/29	5.500	108.2000	4.97	−0.01	−0.15	−0.28	−1.08
Germany	06/00	4.000	100.9600	3.34	−0.04	−0.15	−0.07	−0.83
	10/05	6.500	115.3000	3.81	−0.01	−0.06	−0.13	−1.33
	07/08	4.750	105.5700	4.04	+0.01	−0.03	−0.12	−1.43
	01/28	5.625	109.6000	4.99	−0.02	−0.15	−0.29	−1.08
Ireland	10/01	6.500	107.9200	3.57	−0.02	−0.11	−0.15	−1.73
	[illegible]	6.000	113.3400	4.30	-	−0.05	−0.15	−1.60
Italy	04/01	4.500	102.0900	3.56	-	−0.11	−0.10	−1.59
	07/03	4.500	103.1000	3.76	-	−0.09	−0.17	−1.69
	05/08	5.000	105.5300	4.27	-	−0.08	−0.20	−1.62
	11/27	6.500	119.3500	5.19	−0.01	−0.13	−0.28	−1.24
Japan	12/00	[illegible]	113.4900	0.29	+0.03	+0.04	−0.05	−0.01
	12/03	4.100	116.2500	0.68	+0.04	+0.10	−0.04	−0.50
	06/08	1.800	107.3000	1.00	+0.04	+0.13	+0.09	−0.74
	[illegible]	[illegible]	[illegible]	1.70	+0.03	+0.19	+0.20	−0.93
Netherlands	[illegible]	9.000	107.7600	3.41	+0.01	−0.10	−0.03	−0.88
	[illegible]	5.250	108.9100	4.12	+0.01	−0.04	−0.11	−1.32
New Zealand	[illegible]	[illegible]	[illegible]	4.97	−0.09	−0.09	−0.30	−1.97
	[illegible]	[illegible]	[illegible]	5.59	−0.06	+0.04	+0.04	−1.05
Norway	[illegible]	[illegible]	100.0850	7.80	−0.04	+0.01	+0.19	+3.50
	[illegible]	[illegible]	[illegible]	5.31	−0.02	−0.22	−0.25	−0.29
Portugal	[illegible]	[illegible]	102.2600	3.50	-	+0.04	+0.01	−1.34
	[illegible]	[illegible]	107.7600	4.30	-	−0.07	−0.15	−1.50
Spain	[illegible]	[illegible]	104.4100	3.39	−0.04	−0.07	−0.06	−1.79
	[illegible]	[illegible]	112.4700	4.12	−0.01	−0.06	−0.20	−1.40
Sweden	[illegible]	10.250	102.7940	3.70	+0.02	−0.05	−0.39	−1.34
	[illegible]	6.500	115.3100	4.47	+0.02	−0.09	−0.31	−1.75
Switzerland	[illegible]	4.500	104.4400	1.52	-	+0.06	+0.24	−0.48
	[illegible]	4.250	114.8500	2.41	-	−0.08	−0.35	−1.10
UK	[illegible]	7.000	104.9850	5.15	−0.03	+0.01	−0.10	−1.65
	[illegible]	[illegible]	107.4800	4.87	−0.02	+0.01	−0.20	−1.82
	[illegible]	9.000	[illegible]	4.87	−0.03	+0.01	−0.32	−1.71
	[illegible]	6.000	[illegible]	4.59	−0.05	+0.09	−0.33	−1.85
US	[illegible]	4.500	[illegible]	4.68	−0.01	-	+0.46	−1.07
	[illegible]	5.750	102.3744	[illegible]	−0.01	+0.04	+0.37	−1.19
	[illegible]	5.125	105.5552	[illegible]	−0.01	−0.04	+0.17	−0.97
	[illegible]	[illegible]	[illegible]	5.25	−0.02	−0.02	+0.12	[illegible]
ECU	[illegible]	4.000	[illegible]	3.40	−0.04	−0.13	−0.09	−1.23
	[illegible]	[illegible]	[illegible]	4.13	+0.01	−0.07	−0.17	−1.43

[illegible] Source: Interactive Data/FT Information

10 YEAR BENCHMARK SPREADS

Nov 25	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.15	[illegible]	[illegible]
Austria	4.18	[illegible]	[illegible]
Belgium	4.22	[illegible]	−0.51
Canada	5.20	+1.16	+0.37
Denmark	4.42	+0.40	−0.41
Finland	[illegible]	[illegible]	−0.50
France	[illegible]	+0.11	−0.70
Germany	[illegible]	-	−0.81
Ireland	4.32	+0.30	−0.51
Italy	4.37	+0.35	−0.46
Japan	[illegible]	−3.00	−2.81
Netherlands	4.11	+0.09	−0.72
New Zealand	5.60	+1.58	+0.77
Norway	5.32	+1.30	+0.49
Portugal	4.36	+0.34	−0.47
Spain	4.45	+0.43	−0.38
Sweden	4.49	+0.47	−0.34
Switzerland	2.51	−1.51	−2.32
UK	4.82	+0.80	−0.01
US	4.83	+0.81	-
ECU	4.20	+0.18	−0.63

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Nov 25	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	[illegible]	7.000	BBB−	91.2534	10.23	+0.05	−2.14	+5.60
Poland	[illegible]	7.125	BBB−	103.7337	6.30	−0.03	−0.16	+1.64
Russia	06/07	10.000	n/a	28.7500	39.39	+1.94	−6.28	+34.60
LATIN AMERICA								
Argentina	[illegible]	9.750	BB	90.5000	10.83	−0.09	−0.45	+5.68
Brazil	[illegible]	10.125	BB−	76.0000	13.43	−0.06	−1.04	+8.26
Mexico	[illegible]	11.500	BB	108.7500	10.52	−0.05	−0.52	+5.37
ASIA								
China	[illegible]	7.750	BBB+	104.4208	6.97	−0.05	−1.68	+2.22
Philippines	[illegible]	8.750	BB+	97.2500	9.06	−0.63	−1.85	+4.09
Thailand	[illegible]	7.750	BBB−	94.8471	8.62	−0.24	−2.35	+3.83
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB−	103.8994	6.53	+0.05	−0.47	+1.89
South Africa	10/06	8.375	BB+	86.7150	10.97	+0.05	−0.54	+6.22
Turkey	09/07	10.000	B	94.2500	11.04	−0.17	−2.79	+6.25
BRADY BONDS								
Argentina	03/23	5.750	BB	73.3750	8.62	−0.10	−0.54	+3.52
Brazil	04/24	5.000	BB−	66.3750	12.47	−0.09	−0.58	+7.53
Mexico	12/19	6.250	BB	78.1250	8.50	−0.06	−0.34	+3.47
Venezuela	03/20	6.750	B+	64.6250	11.11	+0.29	+0.24	+6.06

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	110.34	110.17	−0.01	110.39	110.10	40,267	79,616

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Dec	-	-	PUTS Dec	-	-
108	2.18	-	-	0.01	-	-
109	1.19	-	-	0.11	-	-
110	0.29	-	-	0.83	-	-
111	0.01	-	-	1.82	-	-

Est. vol. total, Calls 5,456 Puts 4,250. Previous day's open int., Calls 31,786 Puts 42,164.

Germany

NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	113.89	113.88	+0.02	114.10	113.74	298,502	545,900
Mar	114.19	114.24	+0.07	114.43	114.09	14,214	52,433

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Jan	PUTS Feb	PUTS Mar
11400	0.78	1.03	1.25	0.56	0.81	1.03
11450	0.53	0.78	1.01	0.81	1.06	1.29
11500	0.34	0.58	0.80	1.12	1.38	1.58

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	108.35	108.34	+0.02	108.43	108.29	99,580	250,767
Mar	108.32	108.33	+0.04	108.35	108.28	6,402	34,770

NOTIONAL LFB SWAP FUTURES (LIFFE)* 5yr 4.0% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	100.50	100.48	-	100.50	100.50	100	1035
Mar	-	100.22	-	-	-	0	0

NOTIONAL LFB SWAP FUTURES (LIFFE)* 10yr 4.5% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	100.05	99.92	−0.03	100.05	99.95	216	1412
Mar	-	99.57	−0.03	-	-	0	0

Also traded on APT. All Open interest figs. are for previous day.

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	112.07	111.95	−0.07	112.15	111.89	10951	58855
Mar	112.12	112.00	−0.10	112.12	112.03	211	5708

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Jan	CALLS Feb	PUTS Jan	PUTS Feb
11200	0.51	0.78	0.51	0.78
11250	0.30	0.56	0.80	1.06
11300	0.16	0.38	1.16	1.38

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	115.65	115.62	-	115.72	115.54	22,075	51,606
Mar	-	114.92	-	-	-	-	-

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	107.93	108.10	+0.15	108.04	107.93	1318	1584
Mar	108.20	108.26	+0.21	108.20	108.20	13	0

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	115.95	116.10	+0.15	116.15	115.92	66458	84175
Mar	116.16	116.28	+0.17	116.30	116.10	41349	40943

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Jan	PUTS Feb	PUTS Mar
11600	1.08	1.55	1.79	0.80	1.27	1.51
11650	0.83	1.30	1.58	1.05	1.52	1.80
11700	0.62	1.08	1.36	1.34	1.80	2.08

Est. vol. total, Calls 450 Puts 300. Previous day's open int., Calls 2134 Puts 3067

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	127-24	128-09	+0-16	128-10	127-24	320,276	398,239
Mar	127-19	128-07	+0-17	128-02	127-18	88,692	352,478
Jun	-	127-18	+0-17	127-18	127-18	556	3,644

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	137.79	137.60	-	137.81	137.60	4316	n/a
Mar	136.88	136.71	-	136.89	136.76	877	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	-	106.66	+0.50	-	-	-	284

US CORPORATE BONDS

Nov 24	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA−	105.9327	5.40	+0.03	+0.09	+0.78
NY Tel	08/25	7.00	A+	102.2285	6.81	−0.02	−0.12	+1.59
CWE	05/08	8.00	BBB	113.7820	6.06	+0.01	−0.09	+1.22
FINANCIALS								
GECC	05/07	8.75	AAA	120.2851	5.70	+0.01	+0.15	+0.86
Banc One	08/02	7.25	A	105.3530	5.61	+0.03	+0.09	+0.99
CNA Fin	01/18	6.95	A−	93.8094	7.56	−0.04	+0.25	+2.34
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.1074	5.86	+0.10	+0.19	+1.47
Wal Mart	05/02	6.75	AA	105.1864	5.09	+0.04	+0.12	+0.47
Dayton Hud	06/21	9.70	A−	133.9256	6.74	−0.04	−0.16	+1.52
AGENCIES								
FHLMC	04/07	7.14	N/A	111.8156	5.37	+0.05	+0.01	+0.53
SLMA	03/00	7.50	N/A	102.9246	5.11	+0.02	+0.30	+0.43
FNMA	02/18	8.95	N/A	139.0681	5.60	−0.02	−0.44	+0.38
FFCB	06/06	8.95	N/A	122.3551	5.30	+0.06	−0.03	+0.46
HIGH YIELD								
Stone Cont	02/01	9.88	B	102.1250	0.00	-	-	-
AK Stl	12/01	9.13	BB−	105.6250	0.00	-	-	-
Pacaifa	06/04	10.75	B−	85.0000	0.00	-	-	-

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Close		Treasury Bills and Bond Yields			
Prime rate	7¾	One month	-	Two year	4.66
Broker loan rate	6½	Two month	-	Three year	4.66
Fed.funds	5	Three month	4.58	Five year	4.53
Fed.funds at intervention	4¾	Six month	4.63	10-year	4.83
		One year	4.59	30-year	5.19

INTERNATIONAL BONDS

Nov 25	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO DM								
EIB	02/07	5.750	AAA	110.0000	4.28	+0.02	−0.06	+0.22
Spain	01/07	5.750	AA	109.7000	4.30	−0.03	−0.11	+0.24
Philip Morris	03/04	5.375	A	104.3407	4.43	−0.03	−0.17	+0.83
Finland FRN	09/02	3.531	AA	100.5357	2.86	−0.02	−0.18	−0.58
EURO FFR								
Austria	01/04	5.500	AAA	107.5300	3.85	−0.01	−0.10	+0.14
Abbey Nat	02/04	6.000	AA	109.4400	3.96	+0.01	−0.10	+0.25
Cred Foncier	02/04	9.125	A	122.5800	4.21	+0.01	−0.17	+0.50
3CIF FRN	12/01	3.617	AA−	99.8802	3.39	−0.01	−0.09	−0.09
EURO LIRA								
EIB	02/07	7.000	AAA	118.0295	4.34	-	−0.09	+0.06
Abbey Nat	02/02	6.800	AA	108.9000	3.81	−0.01	−0.11	+0.09
Walt Disney	06/00	8.625	A	107.0000	3.88	−0.02	−0.13	+0.29
EIB FRN	03/01	4.743	AAA	100.0394	3.35	-	−0.13	−0.28
EURO £								
EIB	12/07	7.625	AAA	116.0215	5.34	−0.08	−0.42	+0.57
Dresdner Bk	12/07	7.750	AA−	108.1183	6.53	−0.08	−0.49	+1.76
British Gas	03/00	7.625	A+	101.6949	6.22	−0.01	−0.31	+0.87
Abbey Nat FRN	02/02	7.138	AA	100.1524	4.95	−0.02	−0.29	+0.02
EURO $								
EIB	04/07	7.250	AAA	112.2900	5.39	−0.02	+0.13	+0.60
ABN Amro	06/07	7.125	AA−	104.0136	6.49	−0.02	+0.26	+1.70
Quebec	01/07	7.000	A+	107.1036	5.89	−0.02	+0.31	+1.10
Citicorp FRN	02/04	5.750	A+	95.3450	6.58	−0.01	+0.24	+1.92
EURO C$								
Bayer L-Bk	08/04	9.500	AAA	118.6995	5.57	+0.05	+0.12	+0.18
Toronto	05/04	8.500	AA+	113.7818	5.51	+0.05	+0.12	+0.12
Bell Canada	07/99	10.625	A+	103.0354	5.39	+0.07	+0.40	+0.96
Deutsche B FRN	08/02	5.875	AA+	100.8911	5.61	+0.05	+0.29	+0.31
EURO YEN								
World Bank	03/02	5.250	AAA	115.9019	0.40	+0.01	−0.05	−0.17
Spain	03/02	5.750	AA	117.3551	0.46	+0.03	−0.03	−0.11
Cred Foncier	08/02	4.750	A	113.6771	0.96	+0.03	-	+0.39
Italy FRN	07/99	0.461	AA	100.0717	0.18	-	+0.18	−0.02

London closing. Source: Interactive Data/FT Information. Standard & Poor's ratings. Yields: Local market standard/annualised basis.

UK BONDS

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Wed Nov 25	Day's change %	Tue Nov 24	Accrued interest	xd adj. ytd		Low coupon yield Nov 25	Nov 24	Yr. ago	Medium coupon yield Nov 25	Nov 24	Yr. ago	High coupon yield Nov 25	Nov 24	Yr. ago
1 Up to 5 years (17)	121.77	0.07	121.69	2.58	8.77	5 yrs	4.93	4.92	6.73	4.98	5.00	6.82	4.94	4.97	6.86
2 5-15 years (19)	173.73	0.19	173.41	3.31	8.92	15 yrs	4.65	4.72	6.48	4.81	4.86	6.48	4.89	4.95	6.59
3 Over 15 years (4)	229.23	0.69	227.67	5.40	8.20	20 yrs	4.62	4.72	6.49	4.79	4.84	6.45	4.89	4.95	6.57
4 Irredeemables (4)	305.89	1.17	302.34	0.97	14.66	Irred.†	4.89	4.95	6.56						
5 All stocks (44)	165.25	0.26	164.82	3.41	9.03										

Index-linked							Inflation 5% Nov 25	Nov 24	Yr. ago	Inflation 10% Nov 25	Nov 24	Yr. ago
6 Up to 5 years (2)	225.17	−0.01	225.20	0.49	5.92	Up to 5 yrs	2.26	2.25	3.27	1.52	1.51	2.53
7 Over 5 years (9)	247.43	0.05	247.30	1.52	5.96	Over 5 yrs	2.25	2.25	3.17	2.05	2.05	2.96
9 All stocks (11)	243.17	0.04	243.08	1.34	5.93							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Nov 25	Nov 24	Nov 23	Nov 20	Nov 19	Yr ago	High*	Low*
Govt. Secs. (UK)	112.58	112.20	112.47	112.40	112.86	100.19	112.58	93.31
Fixed Interest	152.05	151.70	152.11	152.23	153.08	131.88	151.77	115.32

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UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or −	52 week High	52 week Low
Shorts" (Lives up to Five Years)							
Treas 9½pc 1999		9.46	6.55	100.3757	−.0050	102.63	100.38
Treas Fltg Rate 1999		-	-	100.0459	+.0021	100.28	100.02
Exch 12¼pc 1999		12.02	6.31	101.8926	−.0010	106.31	101.89
Treas 10½pc 1999		10.29	6.17	102.0270	+.0092	104.98	102.02
Treas 6pc 1999		6.00	6.04	99.9581	+.0177	99.98	98.27
Conv 10¼pc 1999		9.84	5.91	104.1190	+.0083	108.46	103.62
Conv 9½pc 2005		7.63	4.97	124.5513	+.1269	126.15	116.11
Exch 10½pc 2005		7.98	4.98	131.5733	+.1289	133.25	122.83
Treas 12½pc 2003-5		9.40	4.95	133.0259	+.1202	134.90	127.40
Treas 8½pc 2005		7.01	4.89	121.2578	+.1392	122.93	111.51
Conv 9¾pc 2006		7.40	4.89	131.8368	+.1689	134.01	121.03
Treas 7½pc 2006		6.40	4.89	117.1835	+.1452	119.06	106.12
Treas 7¾pc 2006		6.56	4.92	118.0883	+.1427	119.59	107.42
Treas 8pc 2002-6		7.28	5.13	109.8910	+.1007	110.93	104.51

[illegible]

Index-Linked	Notes	Yield (1)	Yield (2)	Price £	+ or −	52 week High	52 week Low
2½pc '99		0.36	1.49	197.7283	−.0367	197.89	187.02
2½pc '01	(78.3)	2.32	2.73	205.2833	−.0567	205.47	193.43
2½pc '03	(78.8)	2.23	2.49	205.5231	−.0419	205.90	190.75
4⅝pc '04	(135.6)	2.17	2.39	132.2880	−.0305	132.63	123.27
2pc '06	(69.5)	2.19	2.34	227.2251	+.1076	227.43	204.23
2½pc '09	(78.8)	2.24	2.38	207.0849	+.0749	208.49	185.71
2½pc '11	(74.6)	2.27	2.38	219.7647	+.1347	220.34	194.11

[illegible]

Other Fixed Interest

[illegible]

Yen holds up despite bad news on tax

MARKETS REPORT

By Alan Beattie

Despite an accumulation of bad news about the Japanese economy and financial system, the yen continued to hold up against the dollar yesterday as short-term considerations prevailed.

An atmosphere of economic gloom in Japan was worsened as hopes of an early cut in the sales tax were dashed. And reports of a Y10,000bn hole in the government's finances followed Tuesday's announcement that nine Japanese banks could see their credit rating downgraded.

But the persistent fear of investors unwinding short yen positions combined with trade-driven yen demand continued to support the currency in a thin market.

The yen yesterday stayed within the narrow trading range it has maintained against the dollar for the past couple of weeks, closing a little lower in London trading at Y121.9, down from Y120.7 on Tuesday.

Sterling shrugged off a weak set of trade data yesterday to finish barely changed against the D-Mark and dollar. After initially dropping on the news that the UK's deficit on goods and services widened to £1.5bn in September, the currency bounced back to finish at DM2.833, up from DM2.832 on Tuesday.

■ Yesterday's instalment of bad news for Japan was that Keizo Obuchi, the prime minister, would not include discussion of a cut in the sales tax in a key policy address to the parliament on Friday.

This came after an admission by government officials that tax receipts could be Y10,000bn lower than originally expected because of the weak economy, and the placing of nine Japanese banks on negative credit watch by rating agency Standard and Poor's.

The sales tax, originally seen as essential to maintain fiscal solvency in a country with an ageing population, has been blamed for depressing consumer confidence at a critical time.

Some analysts thought that despite the continual flow of gloomy news emanating from Japan, the yen could hold its own against the dollar for some time.

"The dollar-yen rate has held firm around Y120," said Philippa Malmgren of Bankers Trust in London. "In a thin market, currency prices have been driven largely by capital repatriation and trade flows. Anyone wanting to short the yen is flying into a strong head wind."

But this did not imply that fundamentals were any better for the Japanese economy, she added.

■ China delivered a fresh reassurance to Japan yesterday that it had no intention of devaluing its currency, the renminbi.

Zeng Peiyan, head of the Chinese state development agency, was quoted as telling Kaoru Yosano, Japan's minister of international trade and industry, that China saw "no need to devalue."

The spectre of a devaluation of the Chinese currency has haunted east Asian policymakers since the start of the crisis in Asian financial markets in 1997.

Some blamed China's devaluation in January 1994 for undermining exports from the rest of east Asia, and contributing to the Asian financial crisis.

China's economy has suffered from maintaining the value of the renminbi over the past year, say analysts.

The trade surplus in October 1998 was over a third lower than a year earlier.

But with most Asian currencies continuing to appreciate back towards their pre-crisis levels, the threat that the Chinese authorities will devalue to restore competitiveness may have receded.

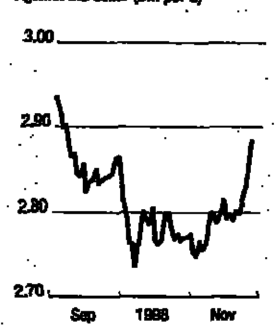
"The Chinese will try to keep from devaluing if at all possible," said Jonathan Chapman, head of foreign exchange at Standard Chartered in London.

"Experience has shown that the benefit from devaluing is short-lived. And it may incur wrath from the US who are making angry noises about their current account deficit. Another devaluation in east Asia may tweak the US's tail once too often," he said.

Mr Chapman thought that only a huge fall in the yen, perhaps to a level of Y150 against the dollar, would force the Chinese authorities to devalue.

Sterling

Against the dollar (DM per £)



Source: Datastream/ICV

■ POUND IN NEW YORK

Nov 25	—Latest—	— Prev. close —
£ spot	1.6585	1.6585
1 mth	1.6569	1.6580
3 mth	1.6562	1.6522
1 yr	1.6412	1.6399

■ OTHER CURRENCIES

Nov 25	£	$
Czech Rp	50.8350 - 50.9129	30.5940 - 30.6280
Hungary	366.582 - 367.003	220.620 - 220.780
Iran	4986.90 - 4984.80	3000.00 - 3000.00
Kuwait	0.5035 - 0.5038	0.3030 - 0.3031
Peru	5.1609 - 5.1696	3.1060 - 3.1100
Poland	5.7491 - 5.7582	3.4600 - 3.4640
Russia	29.5765 - 30.0876	17.8000 - 18.1000
U.A.E.	6.1027 - 6.1058	3.6728 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

BASE LENDING RATES

[illegible]

COMMODITIES & AGRICULTURE

FREIGHT FUTURES VOLUMES RISE BUT VALUES LITTLE CHANGED AFTER FALL IN DRY CARGO RATES

Mixed fortunes in 1998 for FFAs

By Paul Solman

This year looks likely to be one of mixed fortunes in the over-the-counter market for freight futures, known as forward freight agreements (FFAs). Brokers expect about 1,250 contracts to have been traded by the end of 1998, up from last year's level of 1,000.

However, the total value of contracts is expected to stay at around last year's levels – the result of a big fall in dry cargo freight rates.

"The total market value will be around $1.4bn this year," said Philip van den Abeele, managing director of Clarkson Securities, the international shipping brokers. "Volumes are up about 25 per cent for the year, though we could have seen a rise of 50 per cent if it had been a boom year."

Until this year, FFAs had enjoyed rapid expansion since their launch in 1992. The 1,000 contracts traded last year followed 600 in 1996 and only 100 in 1994.

This year's fall in dry cargo freight rates has hit the freight futures market on all sides.

The volume of Biffex freight futures contracts traded on the London International Financial Futures and Options Exchange has dropped back. Volumes fell 51 per cent to about 20,000 contracts in the period from January to October compared with the same period last year, according to the London Financial Futures and Options Exchange.

"Freight values have fallen 30-35 per cent this year to their lowest for 11 years," said John Banaszkiewicz, director of SSY, the London futures brokers. "The industry has been very depressed, and we need new products to revitalise the market."

Mr Banaszkiewicz said the decision by the Baltic Exchange to restructure the Baltic Freight Index was likely to make Biffex contracts more attractive as hedging instruments.

The changes are intended to make the BFI – on which Biffex contracts are based – more closely reflect movements in average shipping rates.

However, Mr Banaszkiewicz did not believe customers would move away from FFAs in favour of Biffex.

"The two markets complement each other, and making Biffex futures more attractive should make all freight futures more attractive," he said.

The dry cargo sector has found FFAs to be flexible hedging instruments, according to Clarkson Securities' Mr van den Abeele, and the market is continuing to expand with the introduction of sophisticated options.

"I would see FFAs continuing to develop, though we're probably not going to see a big increase volumes and values next year," he said.

Estimated FFA volumes
Number of contracts

1994	100
1995	200
1996	600
1997	1,000
1998	1,200

Source: SSY Futures

Oil weak as Opec meets in Vienna

MARKETS REPORT

By Paul Solman and Kenneth Gooding

World oil prices remained weak yesterday as members of the Organisation of Petroleum Exporting Countries looked set to agree to prolong existing production cuts in an effort to support prices, rather than further reduce crude output.

On London's International Petroleum Exchange, the benchmark January contract for Brent blend fell to $11.15 a barrel at one point on heavy selling, before recovering slightly. In late trading, it was $11.16 a barrel against Tuesday's close of $11.19.

Ministers from Opec, meeting in Vienna, appear to prefer greater compliance with the 2.6m b/d reduction agreed earlier this year. However, Kuwait argued yesterday that a further 1m b/d needed to be cut from world production.

On the London International Financial Futures and Options Exchange, robusta coffee prices rose again. The January contract ended the day at $1,740 a tonne, $40 above Tuesday's close.

Cocoa also had a better day, the March contract closing up £6 at £996 a tonne.

Another quiet day on the London Metal Exchange ended with three-month tin down $90 a tonne, or 1.7 per cent, to $5,290 as market tightness eased. Traders suggested a small rise in LME stocks, coupled with the view that the LME was more determined to stamp out any renewed squeeze, contributed to the fall.

Alan Williamson, at Deutsche Bank Research, said metals prices were "settling in to a period of attrition. Prices are likely to drift ever lower as the industry suffers some form of death by a thousand [production] cuts".

ZINC SWISS GROUP IN DEAL WITH ENI

Glencore to buy complex in Sardinia

By Kenneth Gooding, Mining Correspondent

Glencore, the international trading group based in Switzerland, is to increase its already powerful position in the global zinc market by buying the Porto Vesme complex in Sardinia from Eni, the Italian state-controlled energy company.

Further consolidation in the zinc industry can be expected as producers jostle to achieve economies of scale against a background of potential oversupply, analysts suggested.

Glencore is already one of the world's top 10 producers of zinc, a metal used mainly in galvanised steel to give protection against corrosion.

The Swiss group already owns 44 per cent of Spain's Asturiana de Zinc, which has the biggest zinc smelting complex outside the former Soviet Union with annual capacity of 320,000 tonnes; 25 per cent of Metaleurop of France, which has two smelters with total annual capacity of 225,000 tonnes; and 62.4 per cent of Kaztsink in Kazakhstan, with 240,000 tonnes annual capacity.

It also owns 100 per cent of the 30,000 tonnes a year Perubar zinc mine in Peru. This is scheduled to close in about two years, and Glencore has taken a stake in the Iscaycruz mine which will be Perubar's replacement.

Glencore said yesterday it hoped early next year to take full control of Porto Vesme, which has three plants producing about 185,000 tonnes of zinc and 150,000 tonnes of lead.

The nearby San Gavino plant, part of the complex, produces 110,000 tonnes of lead a year. Glencore said the cost would be based on the value of stocks, which still had to be determined.

However, it said it would not not buy the Crotone zinc smelter in Calabria, which Eni also wants to sell. Glencore said it expected the 100,000 tonnes a year Crotone smelter to close at the end of this year.

Geof Mason, at the CRU International consultancy, said: "A lot of commentators have expected Crotone to close for the past 10 years, so we've heard this story before. But if it does close it will help market sentiment. However, on its own it won't turn fundamentals [of supply and demand]."

Robin Bhar, at Brandeis (Brokers), part of the Pechiney group, said the Porto Vesme deal made sense. "There are obvious synergies between trading and owning production facilities. In this case, for example, Glencore will have control of material flows that might enable it to take bigger trading positions because it knows it has the physical metal to back the trades."

Glencore's appetite for zinc capacity was unlikely to be entirely satisfied by the Porto Vesme purchase, analysts suggested. In May, it made an unsuccessful US$163m bid for Western Metals of Australia. Jim Lennon, at Macquarie, the Australian bank, said: "Others are jockeying for position too. All this corporate activity is an admission that the zinc industry needs to look at its entire structure."

There has been speculation that Billiton, the UK-based mining group, and Noranda, Canada's biggest natural resources combine, would join up to bid A$2.2bn for Australian zinc producer Pasminco.

Turkish mining put in doubt

A court ruling against the Ovacik gold venture leaves a cloud over prospects for further investment, writes **Kenneth Gooding**


Robert Champion de Crespigny

The new Turkish government, when it settles in, will almost immediately have to make a decision that will have a profound effect on gold mining in the country, one of the world's big consumers of the precious metal.

An eight-year legal battle about the future of Ovacik, Turkey's first gold mine, ended yesterday with the country's senior administrative court ruling that the Turkish Ministry of Environment was wrong to give its approval to the project.

Government action will now be needed if the mine is to start production.

It is not just Ovacik's fate that is at stake. Other mining companies with promising projects in Turkey have been watching Ovacik's struggle in the courts before deciding whether to invest any more in the country.

Some analysts estimate that, once the way is clear, Turkey could within five years have five gold mines producing between 380,000 and 480,000 ounces annually – a useful contribution in a country where last year gold demand reached 6.5m ounces.

So far Eurogold, the company that owns Ovacik, has spent $100m, including $40m of capital expenditure, to establish the mine, 12km from Bergama on the Aegean coast.

Eurogold is 67 per cent owned by La Source, a company controlled by Normandy Mining, Australia's biggest gold producer, with the remainder held by Inmet, the Canadian mining group.

Eurogold said yesterday that the Council of State had informed the press that it had rejected the company's appeal against an April court ruling that the Environment Ministry should not have given approval for the mine.

Production at Ovacik should have started in December last year at an annual rate of 100,000 troy ounces of gold.

Apart from the chairman, all the management at the mine are Turkish and it should now have been employing more than 200 local people, bringing in $30m of foreign earnings and paying taxes and royalties of about $3.5m a year.

Instead, most of the employees were laid off in May and the project was put on hold to await the court decision.

Eurogold has battled since 1991 to get approvals – the project required the backing of 11 ministries and the signatures of 710 senior officials – and seven Turkish governments have come and gone in that time.

Fierce opposition to the project was based on local fears about the use of cyanide to leach out the gold, a common practice throughout the world. There were worries about the impact on local agriculture and tourism.

Responding to those fears, Eurogold installed a detoxification process so that only a very small quantity of cyanide remains in the waste, which will be stored in an area lined with three layers of impermeable plastic to stop any water seepage.

Mike Nossal, chairman of Eurogold, said the company now has "strong local support for the mine".

"The government has been saying we have its support but it could not take action because of the legal proceedings," he added. "Now the decision has gone against us we believe the next step is that the government should look at the physical plant, now that it has been built, and can make a new decision about the environmental permission.

"The government should say that, either there will be no gold mining in Turkey, or issue another environmental opinion based on today's circumstances."

Robert Champion de Crespigny, chairman of Normandy, said: "At today's gold prices, this mine will not be a giant money-making machine. But we would be letting down our employees, Turkey and ourselves if we did not continue to push on."

Analysts have suggested that Eurogold would be likely to claim compensation from the Turkish government, not only for its expenditure so far but also for loss of profit. However, Mr de Crespigny would not be drawn about this.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1291-92	1301-02
Previous	1285.5-6.5	1296-7
High/low		1301/1292
AM Official	1291.5-2.0	1292.5-3.0
Kerb close		1293-94
Open int.	326,043	
Total daily turnover	19,169	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1078-83	1109-11
Previous	1075-80	1105-10
High/low		1109/1102
AM Official	1065-6	1101.5-2.0
Kerb close		1100-02
Open int.	7,301	
Total daily turnover	52	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	503-1	492-2.5
Previous	505-6	498-8.5
High/low		495/490
AM Official	502-3	492.5-3.0
Kerb close		490-1
Open int.	40,819	
Total daily turnover	5,496	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4060-70	4130-35
Previous	4090-100	4160-65
High/low		4160/4120
AM Official	4070-80	4130-35
Kerb close		4120-25
Open int.	64,694	
Total daily turnover	6,250	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5285-95	5285-90
Previous	5410-20	5395-400
High/low		5350/5285
AM Official	5340-50	5340-50
Kerb close		5290-95
Open int.	18,427	
Total daily turnover	5,410	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	981-2	997-8
Previous	982.5-3.5	1000-01
High/low		1000/996
AM Official	975.5-9.0	997-7.5
Kerb close		996-6.5
Open int.	85,404	
Total daily turnover	5,787	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1501-02	1524-89.5
Previous	1565.5-6.5	1590-4
High/low	[illegible]	[illegible]
AM Official	[illegible]	[illegible]
Kerb close		[illegible]
Open int.	[illegible]	
Total daily turnover	[illegible]	

■ LME AM Official £/$ rate: [illegible]

LME Closing £/$ rate: [illegible]

Spot: [illegible]

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	296.30-296.70		
Opening	296.20-296.50		
Morning fix	296.20	178.33	415.57
Afternoon fix	296.30	178.23	416.75
Day's High	296.50-296.90		
Day's Low	295.60-296.00		
Previous close	296.10-296.50		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.26	6 months	3.85
2 months	4.23	12 months	3.56
3 months	4.21		

Silver Fix	p/troy oz	US cts equiv
Spot	295.45	491.50

Silver Lending Rates

1 month	4.00	6 months	2.70
2 months	3.90	12 months	2.45
3 months	3.70		

Gold Coins	$ price	£ equiv
Krugerrand	295-300	178-181
New Sovereign	69-73	42-44

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	296.4	–	–	–	3	3
Dec	296.5	+0.1	297.0	295.5	22,227	18,125
Feb	299.1	+0.5	299.5	298.0	16,549	49,932
Apr	301.1	+0.5	301.7	299.9	1,111	17,795
Jun	302.9	+0.5	303.5	302.3	1,137	15,208
Aug	304.7	+0.5	–	–	75	5,984
Total					41,513	190,873

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	354.0	−0.6	357.0	352.0	1,429	11,762
Apr	354.5	−0.6	358.0	354.5	60	1,408
Jul	355.9	−0.6	357.5	357.5	35	234
Oct	357.2	−0.6	–	–	2	995
Total					1,524	14,400

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	277.80	+1.65	279.00	274.50	326	724
Mar	276.30	+2.10	278.50	273.25	801	2,055
Jun	274.30	+2.10	–	–	–	5
Total					1,127	2,909

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	488.2	–	–	–	–	–
Dec	490.1	+1.9	498.5	486.5	20,026	14,578
Jan	492.4	+2.0	490.0	490.0	9	84
Mar	496.0	+2.1	504.0	492.0	14,021	39,634
May	499.1	+2.1	505.5	497.0	269	6,038
Jul	502.1	+2.1	509.0	500.0	1,212	6,015
Total					36,510	76,902

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	11.73	−0.39	12.36	11.70	47,468	124.7k
Feb	12.19	−0.29	12.72	12.18	24,154	63,650
Mar	12.61	−0.23	13.05	12.60	20,531	37,276
Apr	12.90	−0.38	13.42	12.90	1,713	20,097
May	13.55	+0.05	13.70	13.46	4,454	18,116
Jun	13.65	−0.13	13.92	13.65	8,203	25,807
Total					n/a	n/a

■ CRUDE OIL IPE ($/barrel)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	11.10	−0.03	11.36	11.15	19,248	93,562
Feb	11.46	+0.03	11.62	11.45	12,192	40,640
Mar	11.74	+0.03	11.90	11.74	3,696	26,293
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ NATURAL GAS IPE (10,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	14.460	−0.030	14.510	14.400	340	1,500
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	78.10	+0.10	78.25	78.10	100	2,429
Mar	80.00	–	80.25	80.00	138	3,140
May	82.00	–	82.25	81.85	203	2,469
Jul	84.00	–	84.25	84.00	69	266
Sep	80.75	–	–	–	–	99
Total					557	9,300

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	278.00	+2.00	279.00	275.75	22,379	25,216
Mar	295.00	+2.00	295.50	292.50	23,116	68,044
May	305.50	+3.00	306.00	304.00	2,079	9,518
Jul	315.75	+2.75	316.00	311.75	3,476	20,814
Sep	323.25	+2.25	324.00	323.00	113	1,080
Dec	335.25	+4.00	335.50	334.50	119	1,085
Total					51,282	123,739

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	218.75	–	217.50	216.50	41,119	74,130
Mar	228.25	+0.50	229.00	227.50	35,380	139,887
May	235.75	+0.25	236.50	235.50	2,412	39,549
Jul	241.25	–	242.00	241.00	3,009	45,804
Sep	246.75	−0.25	248.00	245.75	237	7,248
Dec	252.25	−0.75	253.50	252.00	1,273	20,814
Total					83,452	329,167

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	79.00	−0.30	79.30	79.00	45	820
Mar	81.00	−0.30	–	–	–	210
May	82.00	−0.30	–	–	–	32
Sep	80.00	−0.35	–	–	–	10
Nov	82.00	−0.35	–	–	–	10
Total					45	1,082

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	571.25	+1.00	573.50	569.25	20,162	69,714
Mar	580.25	+1.00	582.50	578.25	3,560	28,522
May	589.75	+0.75	591.00	587.25	1,949	15,311
Jul	595.75	+1.00	597.25	594.00	1,506	18,708
Aug	596.50	+0.50	599.00	596.00	115	1,481
Sep	596.50	+0.50	599.00	596.50	47	316
Total					26,360	142,371

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	24.73	+0.10	24.76	24.67	12,602	16,988
Jan	24.92	+0.09	24.92	24.85	12,315	30,964
Mar	25.11	+0.08	25.12	25.06	5,271	24,363
May	25.13	+0.08	25.18	25.10	1,537	11,042
Jul	25.28	+0.08	25.28	25.15	1,134	13,320
Aug	25.30	+0.12	25.33	25.20	56	1,371
Total					33,231	103,687

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ FREIGHT (BIFFEX) LIFFE ($10/Index point)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Close	Prev
BFI	[illegible]	[illegible]

PULP AND PAPER

■ PULPEX (NBLX USD; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	414.75	−4.25	414.75	414.75	10	316
Mar	440.75	−1.50	443.00	440.75	11	333
Total					21	863

FUTURES DATA
All futures data supplied by CMS.

VOLUME DATA
Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	957	+4	957	947	4,907	17,824
Mar	995	+5	996	983	4,916	45,974
May	1015	+5	1014	1005	867	26,992
Jul	1031	+4	1027	1022	193	11,036
Sep	1048	+4	1050	1039	413	27,923
Dec	1071	+4	1065	1063	50	12,483
Total					11,428	155,181

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1458	+25	1462	1445	180	886
Mar	1483	+25	1485	1467	2,141	41,999
May	1506	+24	1511	1494	384	11,708
Jul	1533	+24	1531	1525	10	2,792
Sep	1558	+24	–	–	14	3,556
Dec	1588	+24	–	–	–	5,299
Total					2,729	70,448

■ COCOA (ICCO) (SDR's/tonne)

Nov 24	Price	Prev. day
Daily	1143.21	1146.61

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	2000	−105	2113	1970	440	3,790
Jan	1740	+40	1740	1689	5,582	20,168
Mar	1650	+30	1650	1605	3,142	11,554
May	1615	+24	1605	1575	361	5,315
Jul	1590	+19	1560	1550	141	1,282
Sep	1570	+14	1535	1533	26	504
Total					9,712	42,863

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	113.15	+3.15	113.80	110.00	460	886
Mar	110.40	+1.45	111.50	109.00	4,454	18,019
May	110.75	+1.55	111.25	110.00	363	5,509
Jul	111.60	+1.60	111.90	111.20	50	2,212
Sep	112.50	+1.60	112.20	112.20	16	1,483
Dec	113.70	+1.65	113.75	113.50	77	730
Total					5,420	28,898

■ COFFEE (ICO) (US cents/pound)

Nov 24	Price	Prev. day
Comp. daily	96.64	94.58
15 day average	97.69	98.13

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	240.1	+0.9	240.3	238.4	1,744	20,558
May	242.1	+1.4	242.2	240.4	221	5,230
Aug	243.1	+1.4	242.3	241.3	131	3,534
Oct	238.1	+7.9	236.8	236.5	22	3,647
Dec	241.6	+7.1	–	–	–	310
Mar	244.3	+8.8	244.3	244.3	10	628
Total					[illegible]	[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INDICES

■ Reuters (Base: 18/9/31 = 100)

Nov 25	Nov 24	month ago	year ago
1470.5	1468.8	1481.6	1803.7

■ CRB Futures (Base: 1967 = 100)

Nov 24	Nov 23	month ago	year ago
[illegible]	[illegible]	[illegible]	[illegible]

■ GSCI Spot (Base: 1970 = 100)

Nov 24	Nov 23	month ago	year ago
[illegible]	[illegible]	[illegible]	[illegible]

■ LME WAREHOUSE STOCKS (tonnes)

Aluminium	+1,400	to	[illegible]
Aluminium alloy	−580	to	[illegible]
Copper	−3,250	to	[illegible]
Lead	+150	to	[illegible]
Nickel	+84	to	[illegible]
Zinc	−700	to	[illegible]
Tin	+395	to	7,730

Nuts and seeds Prices from Kenkko London [illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Dec	63.450	+0.925	63.600	62.700	8,593	27,035
Feb	63.450	+0.800	63.650	62.700	6,392	36,247
Apr	65.025	+0.575	65.250	64.525	2,567	21,743
Jun	63.600	+0.425	63.725	63.175	1,148	11,772
Aug	63.825	+0.450	63.850	63.400	725	7,509
Oct	66.400	−0.050	66.550	66.200	189	1,970
Total					19,832	106,829

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Dec	29.075	+0.475	29.850	28.450	4,133	12,641
Feb	36.600	+0.650	37.400	35.750	4,345	15,515
Apr	39.625	+0.425	39.950	38.775	1,405	6,718
Jun	50.250	+0.675	50.450	49.350	807	4,471
Jul	52.050	+0.850	52.400	51.300	375	2,081
Aug	53.025	+0.250	53.300	52.750	172	2,009
Total					11,468	44,659

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	43.775	+0.825	45.000	42.500	1,635	4,310
Mar	43.575	+1.175	44.500	42.600	133	655
May	44.950	+0.925	46.000	44.400	66	450
Jul	45.500	+0.575	47.225	45.500	42	132
Total					1,884	5,846

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Jan	Apr	Jan	Apr
1250	61	84	12	30
1300	31	56	32	51
1350	13	36	64	79
■ COPPER (Grade A) LME	Jan	Apr	Jan	Apr
1500	83	129	12	35
1600	26	73	54	78
1700	5	37	132	139
■ COFFEE LIFFE	Jan	Mar	Jan	Mar
1650	104	77	14	77
1700	67	57	27	107
1750	40	42	50	142
■ COCOA LIFFE	Dec	Mar	Dec	Mar
950	25	59	1	14
975	3	42	3	22
1000	1	29	25	34
■ BRENT CRUDE IPE	Jan	Feb	Jan	Feb
1100	-	-	43	63
1150	-	-	-	61
1200	-	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$11.23-1.43x	-0.29
Brent Blend (dated)	$10.36-0.46	-0.14
Brent Blend (Dec)	$10.72-0.83	-0.165
W.T.I.	$12.04-2.10x	-0.275

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

		+or-
Premium Gasoline	$126-128	-3
Gas Oil	$98-99	-2
Heavy Fuel Oil	$57-60	-1
Naphtha	$126-128	
Jet fuel	$114-116	-1
Diesel	[illegible]	-2

■ NATURAL GAS (Pence/therm)

Bacton (Dec)	14.40-14.46	-0.025

Petroleum Argus. Tel London (0171) 359 8792

■ OTHER

Gold (per troy oz)♣	$295.45	+0.30
Silver (per troy oz)♣	491.50c	-0.50
Platinum (per troy oz)	$353.00	+2.50
Palladium (per troy oz)	$275.00	-0.50
Copper	78.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	[illegible]	+0.19
Tin (New York)	[illegible]	-2.0
Cattle (live weight)	[illegible]	-1.36*
Sheep (live weight)	[illegible]	+1.71*
Pigs (live weight)	[illegible]	-5.11*
Lon. day sugar (raw)	[illegible]	-2.20
Lon. day sugar (wte)	[illegible]	-1.50
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	[illegible]	
Wheat (US Dark North)	Unq	
Rubber (Jan)♥	[illegible]	+0.50
Rubber (Feb)♥	[illegible]	+0.50
Rubber (KL RSS No1)	[illegible]	+0.50
Coconut Oil (Phil)§	[illegible]	
Palm Oil (Malay)§	[illegible]	-2.5
Copra (Phil)§	[illegible]	
Soyabeans (US)	[illegible]	-2.0
Cotton Outlook 'A' index	[illegible]	
Wooltops (64s Super)	[illegible]	

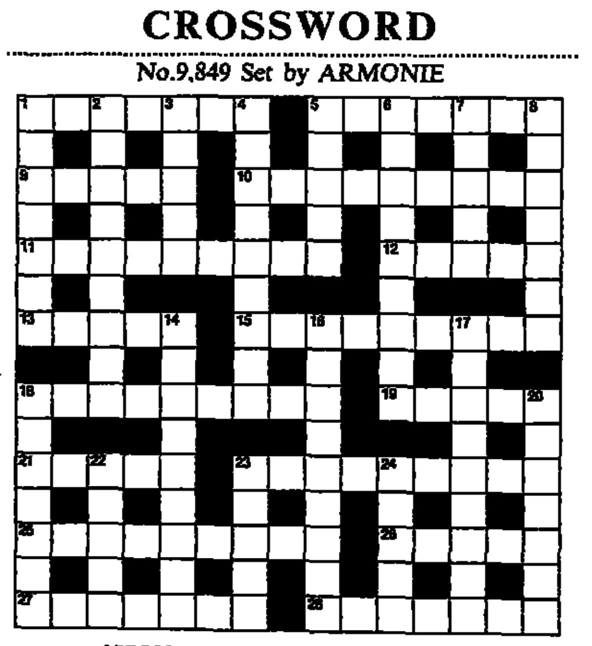
£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. [illegible]

JOTTER PAD

For solutions to today's crossword call 0891 430060. Calls cost 50p a minute.

CROSSWORD

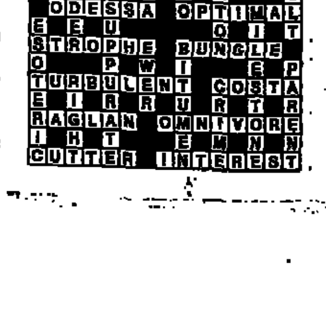
No.9,849 Set by ARMONIE



ACROSS
1 Family of talented siblings meet by the pool (7)
5 Crooked and spirited young man's supervised (7)
9 She's one of the ones to review hospital (5)
10 It's lucky, for example, the Arabs do some gardening (9)
11 Be reasonable Sam! See Ken's getting confused (4,5)
12 Spare Bob society's customs (5)
13 Come to a stretch of water (5)
15 Heavenly body of celebrity, heard but not seen (5,4)
18 Ridicule fake put on display (4,3,2)
19 Porter, for example, about to live in Poplar (5)
21 It is part of a fine, well-designed pillar (5)
23 One supplies drink to Arthur during drunken spree (9)
25 One opposed to well-established policeman (9)
26 Model elevated part of the body (5)
27 The loan is liquidated for alcohol (7)
28 Cutting's allowed of tasty little dish (7)

DOWN
1 Ship's master contrived to restrain oriental (7)
2 Weak kings restrict function of advisory body (5,4)
3 Those fancy attitudes (5)
4 See the Scotswoman smile in the opera (9)
5 It's simple laying hold of good lighter (5)
6 Drink a great deal during the ending of the music (5,4)
7 The music's simple harmonies give away the composer (5)
8 Lady's maid found showing off in the kitchen (7)
14 I fall when mixing with hunt characters, being pompous (9)
16 Stop man becoming cleaner (9)
17 Time to study philosopher? That's a dreary routine (9)
18 Greek god to suffer anguish showing spirit (7)
20 What gossip can make when in audible range (7)
22 Tackle achieving success with honour (5)
23 A confusion of voices initially baffled the murder victim (5)
24 Present the lessee with no resistance (5)

Solution 9,848



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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Asset Management (Bermuda) Ltd

Orbis Fund Limited

BERMUDA (REGULATED)(**)

Bermuda Intl Invest Mgmt Ltd

Credit Lyonnais Rouse (Bermuda) Ltd

Framlington Investment Mgmt (Bermuda) Ltd

Integral Investment Management Inc

McKinley Offshore Management Ltd

Meditor Capital Management (Bermuda) Ltd

N.I.L. Investments Limited

Orbis Investment Management Ltd

Philo Smith & Co

StarVest Investment Funds

CAYMAN ISLANDS (REGULATED)(**)

Africa Emerging Markets Fund

Allegro Capital Limited

Bank of Nova Scotia Trust Co (Cayman) Ltd

Baring Mutual (Ireland) Limited

Brown Shipley Asset Mgmt

Butterfield Fund Managers (Cayman) Ltd

The China Fund

Dragon Securities Ltd

Franklin Templeton Group Plc

Gota Currency Funds

Global Fund Management S.A.

Korea Intl Investment Fund

Korea International Investment Fund Ltd

Korea Alternative Fund Ltd

Liberal Asset Management - LIBERAL FUND

Marshall Wace Asset Management Limited

Morgan Stanley Dffs Advisory Mortgage Fd Inc

Orion Capital Advisors Ltd

Pakistan Fund

Perry Partners International Inc

Philippine Income Fund Inc

Prospector Fund Management Ltd

Prudential Securities Futures Mgmt, Inc

Putnam Offshore Funds

Renaissance Capital Asset Management Ltd

Russia Value Fund LP

SBC Global Management (Cayman) Inc

Sierra Global Management PLC

Strome Offshore Limited

Strome Susskind Investment Management LP

Swiss Finance Corporation

Taipei Fund

Tallerman Capital Inc

Zandt Lombardier Ltd

GUERNSEY (FSA RECOGNISED)

Dresdner RCM Global Investors (Guernsey) Ltd

Lazard Fund Managers (CI) Ltd

Lloyds Intl Money Market Fund Ltd

Royal Bank of Canada Guernsey Limited

Schroder Investment Mgmt (Guernsey) Ltd

Royal Bk of Canada O/S Fd Mgrs Ltd

GUERNSEY (REGULATED)(**)

ABN AMRO Global Liquidity Funds Plc (a)

Barclays Global Investors Guernsey Ltd

Butterfield Fund Managers (Guernsey) Ltd

CBC Fund Managers (Guernsey) Ltd

Collins Stewart Asset Management Ltd

Concord Mar Investment Mgmt (Guernsey) Ltd

Ely Place Fund Managers (Guernsey) Ltd

Long-Invest Capital Ltd

Merrill Lynch Guernsey

Rothschild Asset Mgmt (CI) Ltd

Tudor Investment Management (Guernsey) Ltd

IRELAND (FSA RECOGNISED)

AIB Fund Management Ltd

Baring Intl Fd Mgrs (Ireland) Ltd

Christiania Investments Plc

Dublin Europe Fund Mgrs Ireland Ltd

Dresdner Kleinwort Benson Intl Mgt Services Ltd

Finsbury Park US Smaller Companies Fund Plc

Lazard Investment Funds Ltd - Contd.

IRELAND (REGULATED)(**)

AIB Fund Management Ltd

Global Asset Management - Contd.

The Baird Global Investment Company Plc

SAS-EX Management SA

Kim Europe Worldwide Fund

Skandia Select Fund Plc

ISLE OF MAN (FSA RECOGNISED)

Alliance & Leicester Intl Fd Mngrs Ltd

Ashburton Global Funds Ltd

Bank of Ireland Asset Mngmt (IOM) Ltd

Irish Permanent Fund Managers (IoM) Ltd

Old Mutual Intl Fund Managers (Isle of Man) Ltd

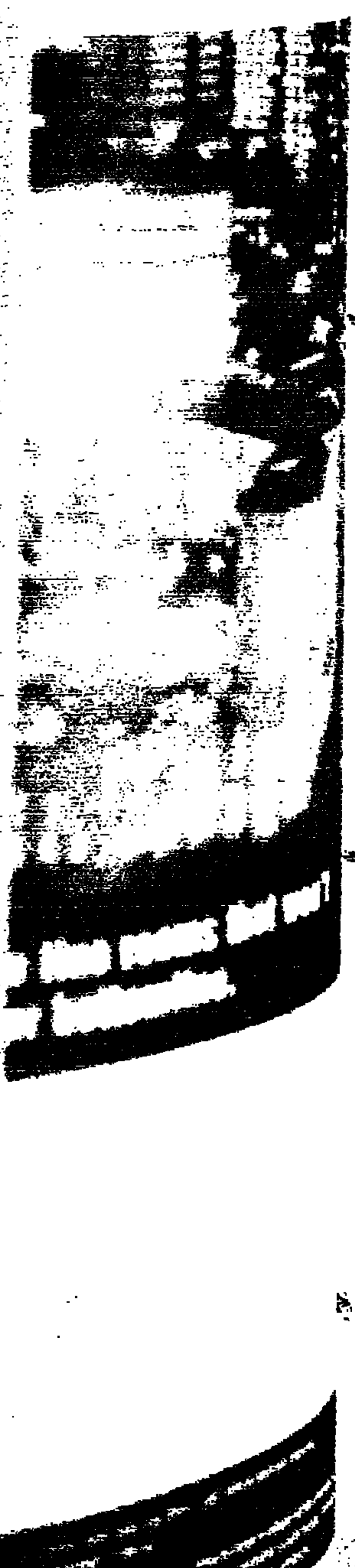
ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

AIB Fund Managers (CI) Ltd

Barclays International Funds

Lloyds Bank (CI) UT Mgrs



Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Royal Bank of Scotland Fd Mgrs (Jersey) Ltd

Royal Bank of Scotland International Ltd

Royal Bank of Scotland Intl Offshore Portfolio Limited

JERSEY
(REGULATED)(**)

ASSA Offshore Fund Managers (Jersey) Ltd

AIB Govett Management (Jersey) Limited

Bank of Ireland Asset Mngmt (Jersey) Ltd

Aberdeen Fund Mngrs (Luxembourg) Ltd (u)

American Phoenix Investment Portfolios (u)

Bank Von Ernst & Cie AG

Foreign & Colonial Portfolios Fd Sicav(u)

Framlington International Portfolios

Frontrunner I (u)

GT Global

Mercury Asset Management - Contd.

Morgan Stanley Sicav

LUXEMBOURG
(REGULATED)(**)

AGM Offshore Funds

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

UBS AG - Contd.

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

LUXEMBOURG
(FSA RECOGNISED)

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

هكذا الأصل

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Continued

[illegible]

GAS DISTRIBUTION

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
BG	†	428xd	-3½	438	249¾	7,184	2.4	34.5
Centrica		119¼	-2	130	80¾	8,347	-	-
International Energy	†	134	+½	147	98½	-	3.7	13.6

HEALTH CARE

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Advanced Medical		42xr	+½	134½	40¼	5	-	-
Alliance UniChem	‡†	578xd	+13½	602½	314½	1,141	3.2	24.5
Assoc Nursing		140	—	170	135	-	3.6	13.2
Bader Int S		627½	—	627½	627½	-	-	-
Bespak	‡	858½	—	1026	687½	-	2.0	21.7

HEALTH CARE - Continued

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

INSURANCE

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

صكذا من الاصل

صكذا من الاصل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

Approved by the Inland Revenue

Net asset values supplied by BT Alex Brown International as a guide only. See guide to London Share Service.

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

AIM

Alternative Investment Market

AIM - Continued

GUIDE TO LONDON SHARE SERVICE

FT Free Annual Reports Club

FT Cityline

The FT web site

Footsie dips as profit-takers emerge late in the day

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

A rather topsy-turvey session in the London equity market saw the leading stocks finish the day on an easier note as profit-taking overwhelmed an early burst of buying interest.

But there was never any really powerful downside pressure. Rather it was an orderly winding down of positions ahead of the US Thanksgiving Day holiday.

US investors traditionally extend their holiday to take in the Friday and dealers in London said they expected activity across most European markets to fall away for the rest of the week.

"After the super performance of the past week or so it makes sense to book some of those profits," said one marketmaker. He said the flurries of profit-taking had helped dealers level some of the short positions that have caused them much anxiety.

He also noted fresh bursts of takeover speculation across the market: "The recent spate of bids is expected to continue and that more than anything will help to underpin the market," he said.

Another bid emerged yesterday as Emerson of the US moved in, extending its sequence of winning performances to a fifth straight session to mop up the minority stake in Astec BSR.

Apart from the takeover hints, there was plenty of company news for dealers and investors to get their teeth into.

Granada Group, the hotels and leisure group, vied for top spot in the FTSE 100 performance table after reassuring numbers and a surprisingly optimistic trading update, pointing to robust business throughout its chain of hotels and other businesses.

And the second-line stocks were featured by exceptional gains for Johnson Matthey after the company said it was refocusing its businesses.

At the finish of a relatively quiet session the FTSE 100 posted a 43.0 decline at 5,755.3.

Sentiment in London was always looking fragile and took a turn for the worse after Wall Street opened for business. The Dow Jones Industrial Average, which had fallen 73 points overnight, kicked off in reasonable fashion but gradually gave way as the US session progressed. It was down around 30 points as London dealers closed their books for the day.

At its worst, within an hour of the US opening the FTSE 100 hit a session low of 5,732.5, down 65.8. But it subsequently rallied as buyers took advantage of what was seen as an opportunity to pick up cheap stock.

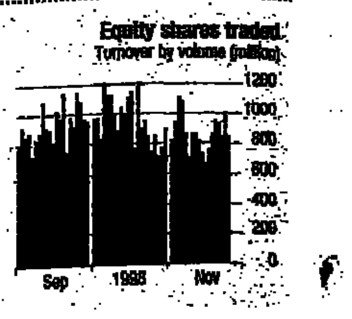
It was a different situation for midcap stocks where positive corporate news kept the FTSE 250 index in the black apart from two lapses in mid-morning and mid-afternoon, which were were soon corrected.

The FTSE 250 ended 2.5 firmer at 4,926.4, extending its sequence of winning performances to a fifth straight session. Over that five-session series the index has risen 145.5, or 3 per cent. The FTSE SmallCap, meanwhile, eased 2.5 to 2,062.2, burdened by more dismal results and profit warnings.

Turnover was a relatively decent 850m shares, but looks set to suffer for the rest of the week, without the benefit of any new bids.

FTSE All-Share Index

Equity shares traded
Turnover by volume (million)



Sources: FTSE International/Topic

Indices and ratios

FTSE 100	5755.3	−43.0		FT 30	3470.1	−15.0
FTSE 250	4926.4	+2.5		FTSE Non-Fins p/e	21.71	21.78
FTSE 350	2728.4	−16.8		FTSE 100 Fut Dec	5776.0	−59.0
FTSE All-Share	2632.91	−15.60		10 yr Gilt yield	4.80	4.92
FTSE All-Share yield	2.93	2.95		Long gilt/equity yld ratio	1.67	1.68

Best performing sectors

1 Leisure & Hotels +2.5
2 Extractive Industries +1.9
3 Support Services +1.2
4 Property +0.9
5 Chemicals +0.8

Worst performing sectors

1 Oil Exploration & Prod −2.8
2 Insurance −2.1
3 Life Assurance −2.1
4 Telecommunications −1.8
5 Engineering −1.8

Retailer triggers new fears

COMPANIES REPORT

By Joel Kibazo, Martin Brice and Peter John

Reports that retailer Kingfisher yesterday cancelled a meeting with a broker at short notice sent tongues wagging about an impending announcement from the company.

The high street retailer is set to publish a trading update on December 9 and speculation about the impending announcement fell into two camps.

With each passing day bringing grim news on trading among retailers, pessimists feared Kingfisher might join the growing band of UK retailers that have already felt the impact of the global economic slowdown.

Bulls of the stock suggested Kingfisher may be about to hit the acquisition trail again, having announced several deals this year. Two-way business left the shares unchanged at 545p, with volume having reached 4.3m.

Leading oil companies moved back on heavy volume with dealers citing a number of manipulative stories. The stories are being seen as a way of depressing the share prices so marketmakers can correct big short positions in the oil majors.

In the morning a story had spread that "a big line" of Shell shares was looking for a home. As Shell is one of the most liquid stocks in the market the implication was that at least 10m shares could be sold.

The stock fell 4¼ to 353¼ despite the proposed closure of Norske Shell's Sola refinery in Norway, which analysts saw as evidence that the restructuring programme is still intact.

The next story to hit the sector revolved around the latest round of Opec talks in Vienna, which began yesterday.

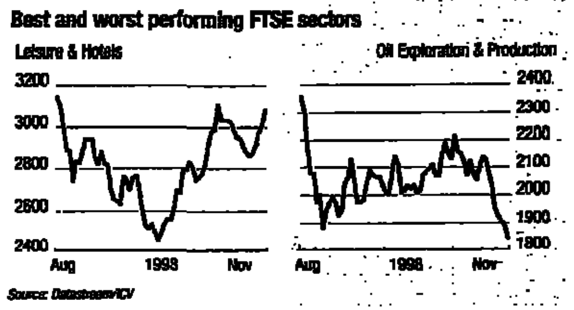
There was a buzz that Venezuela might boost production by 500,000 barrels a day, a move that would severely undermine the current production agreement.

One dealer said "There is a a very real worry that Brent could go below $10."

As a result, BP also came under pressure. The shares ended a net 6½ lower at 933p with 24m traded.

The rumours come on the back of last week's speculation that Kuwait was poised to dispose of its 6 per cent stake in BP. A story later denied by the Kuwait Investment Office.

Best and worst performing FTSE sectors



Source: Datastream/ICV

News that Johnson Matthey planned to demerge and float part of its business in the US prompted the shares to soar amid a wealth of positive comments.

The timing of the announcement is seen as particularly astute because it coincides with early signs of recovery in the semiconductor market.

The stock gained 13 to 392½p with brisk volume of 5.9m demonstrated the high level of investor enthusiasm for the move.

Robert Speed, at Henderson Crosthwaite, told clients that if operating margins at the electronics materials division could be restored to 12 per cent and it were floated in the US, it could produce a business worth about £500m.

This compared with a current market capitalisation of about £872m for the entire company.

He also raised his profit forecast for next year by £4m to £157m.

In telecoms, mobile telephones group Orange a favourite this year, moved against the market trend to close 7 ahead at 632p.

But it looks as if the stock, which has more than doubled since the begining of this year, may be about to lose its sparkle. Having hit a high of 799p in late August, the shares have eased in general profit-taking and some concern about the outlook for the sector.

Analysts have downgraded current year expectations from a loss of £75m to a loss of £120m. Brokers expect the group to report a loss next year as well. They forecast a negative number of about £20m against previous expectations of a small profit.

Bears of the stock now have a near term share price target of no more than 400p.

Independent television operators tumbled as the market reacted disappointedly to the cuts in franchise charges.

United hit

Hardest hit was United News and Media, which owns the old Meridian, Anglia and HTV operations. Analysts had hoped for a £46m reduction and the regulator announced a £33m cut. The shares, which had been up sharply on encouragement from the Granada figures closed 22 off at 643p.

Carlton Communications got a £12.5m cut against expectations of £22m for its core holdings. The shares fell 9 to 464p.

ICI gained 23½ to 580p on the back of broker comment ahead of an analysts' trip to Amsterdam to see the flavouring and fragrance plants acquired from Unilever.

Elsewhere in chemicals, Burmah-Castrol lost 15 to 855p as analysts were called in during a two-day trip to the company's operations in the West Midlands.

Siebe and BTR fell as the euphoria that followed their merger announcement continued to evaporate. Siebe was the worst Footsie performer as it lost almost 7 per cent, or 15 to 220p amid brisk trade of 15m. BTR was down 3 at 126p as 18m were dealt.

Goldman Sachs sold 915,000 Siebe shares at 237p, while The Capital Group sold 850,000 at 245p and 225p.

The takeover story involving SmallCap brewer Marston Thompson & Evershed developed as 1.4m were traded while the stock gained 11½ to 246½p. But the company is thought to be telling analysts no approach has been received from fellow brewer Wolverhampton & Dudley, which this month confirmed reports it was considering a bid.

Analysts tended to pour cold water on suggestions that a bid was imminent. Wolverhampton was unchanged at 430p.

Hi-Tec Sports was down 7 at 18p after the footwear and leisurewear distributor issued a profit warning. It cited tough trading in North America due to the amount of cut-price trainers sold.

It also said it had turned down approaches from US companies because they "all reflected the recent significant reduction in valuations of footwear companies in America and did not reflect the long term potential of the group".

Granada Group jumped 37 to 910p as the market appreciated an increase in full year profits.

It was also favourable results that boosted Tate & Lyle, the shares appreciating 29 to 402p.

FT 30 INDEX

	Nov 25	Nov 24	Nov 23	Nov 20	Nov 19	Yr ago	*High	*Low
FT 30	3470.1	3485.1	3531.1	3434.5	3388.2	3163.5	4004.9	2790.6
Ord. div. yield	3.03	3.01	2.98	3.04	3.10	3.57	4.22	2.72
P/E ratio net	22.12	22.24	22.48	22.04	21.62	20.57	25.41	15.80
P/E ratio nil	22.03	22.15	22.39	21.95	21.53	20.29	25.19	15.71

FT 30 since compilation: high 4004.9 15/07/98, low 49.4 26/06/40. Base Date 1/7/35

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3485.1	3494.0	3495.8	3490.7	3498.8	3477.4	3472.6	3472.5	3518.1	3462.4

STOCK MARKET TRADING DATA

	Nov 25	Nov 24	Nov 23	Nov 20	Nov 19	Yr ago
SEAQ bargains	80,905	75,412	81,355	77,292	63,597	41,143
Equity turnover (£m)†	-	2930.9	2875.3	3347.6	3218.3	2299.2
Equity bargains†	-	67,146	70,449	66,229	52,361	48,558
Shares traded (m)†	-	815.3	799.6	915.1	881.3	683.2
Total market bargains‡	-	n/a	n/a	77,607	62,476	-
Total turnover (£m)‡	-	n/a	n/a	4168.0	3952.6	-
Total shrs traded (m)‡	*863.1	n/a	n/a	1078.5	1059.7	-
Tradepoint turnover (£m)	22.0	18.8	22.9	20.9	27.0	19.2
Tradepoint shrs traded(m)	9.1	9.6	11.5	9.4	12.3	8.0

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	492	Total Highs	33	Total contracts	27,273
Total Falls	978	Total Lows	67	Calls	11,559
Same	1,455			Puts	15,714

Nov 25 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	5845.0	5776.0	-59.0	5880.0	5755.0	18915	193139
Mar	5922.0	5828.5	-59.5	5922.0	5810.0	498	21468
Jun	-	5876.0	-62.0	-	-	0	10890

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

Dec	-	4947.0	+2.0	-	-	0	8404

■ FTSE 100 INDEX OPTION (LIFFE) (*5752) £10 per full index point — Nov 25

[illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point — Nov 25

[illegible]

† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt. paid up	Mkt. cap (£m)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
[illegible]											
§	F.P.	5.17	5½	4½	†Natural Bldg Mtls	5½		-	-	-	-
§	F.P.	2.10	105	105	†Do Cnv Pd	105		-	-	-	-
§	F.P.	13.8	27½	27½	†Offshore Tool & En	27½		-	-	-	-
-	F.P.	-	62½	50½	†Old Monk Company	54		-	-	-	13.6
-	F.P.	7.48	93	90½	Piccadilly Growth	90½		1.6	0.8	2.2	71.6
100	F.P.	-	103	94	REXAM B	95		-	-	-	-
§	F.P.	15.0	100	100	Singer&Frd AIM VCT	100		-	-	-	-
-	F.P.	-	15½	13½	Thistle Hotels Pf	15		-	-	-	-
-	F.P.	-	15	5	Xenova Warrants	13½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Nov 24	% chg on day	Nov 23	Year ago	Gross div yield %	Total return	52 week High	52 week Low
Gold Mines Index (29)	1114.11	−0.7	1121.61	1086.07	1.67	1116.87	1351.57	781.58
■ Regional Indices								
Africa (9)	1226.98	1.7	1206.13	1125.94	3.33	1233.04	1468.04	765.63
Australasia (9)	1283.19	0.2	1280.63	1072.38	2.40	1289.67	1600.53	815.93
Americas (11)	1054.19	−2.0	1075.25	1058.49	0.71	1056.28	1317.41	847.89

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Nov 25	Day's chge%	Nov 24	Nov 23	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5755.3	−0.7	5798.3	5848.4	4891.2	2.80	2.40	1.97	22.62	135.06	2544.79
FTSE 250	4926.4	+0.1	4923.9	4901.2	4851.8	3.58	3.05	2.13	16.37	126.16	2136.88
FTSE 250 ex Inv Tr	4951.3	+0.1	4946.9	4920.9	4892.0	3.73	3.18	2.20	15.22	130.95	2158.71
FTSE 350	2728.4	−0.6	2745.2	2763.0	2361.4	2.93	2.50	2.00	21.28	64.95	2465.28
FTSE 350 ex Inv Tr	2735.5	−0.6	2752.3	2770.5	2365.1	2.94	2.52	2.02	21.07	65.47	1267.90
FTSE 350 Higher Yield	2640.0	−0.6	2656.9	2683.4	2364.0	3.91	3.32	1.92	16.65	82.21	2045.56
FTSE 350 Lower Yield	2814.4	−0.6	2831.0	2838.8	2372.9	1.89	1.63	2.19	30.22	49.77	2060.31
FTSE SmallCap	2062.16	−0.1	2064.68	2060.39	2268.09	4.01	3.28	1.99	15.63	56.53	1816.27
FTSE SmallCap ex Inv Tr	2012.05	—	2012.66	2008.15	2272.99	4.38	3.59	2.09	13.68	59.62	1791.87
FTSE All-Share	2632.91	−0.6	2648.51	2664.80	2308.90	2.98	2.54	2.00	20.93	63.10	2414.48
FTSE All-Share ex Inv Tr	2643.20	−0.6	2658.74	2675.39	2314.34	3.00	2.56	2.02	20.62	63.85	1247.20

■ FTSE Actuaries Industry Sectors

	Nov 25	Day's chge%	Nov 24	Nov 23	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(20)	4214.04	−0.7	4242.82	4282.22	4425.78	3.54	3.15	1.51	23.33	132.78	1966.57
12 Extractive Industries(6)	2765.20	+1.9	2712.87	2697.76	3003.71	4.94	4.55	1.99	12.70	130.45	891.90
15 Oil, Integrated(3)	4879.40	−0.9	4922.98	4979.15	4851.04	3.39	3.00	1.45	25.42	145.75	2341.32
16 Oil Exploration & Prod(11)	1842.22	−2.8	1895.00	1904.85	3606.50	2.98	2.61	0.96	43.79	48.95	1153.03
20 GEN INDUSTRIALS(211)	1768.14	−0.6	1778.69	1788.38	1981.42	4.14	3.65	2.20	13.73	59.68	1056.36
21 Construction(39)	1265.72	−0.2	1268.84	1268.23	1326.53	4.05	3.27	2.98	10.41	38.34	1146.29
22 Building Matls & Merchs(26)	1577.87	+0.7	1567.56	1560.38	1802.20	4.75	4.10	2.13	12.35	58.57	875.01
23 Chemicals(23)	1983.78	+0.8	1967.25	1996.59	2442.00	4.62	4.32	1.53	17.71	72.95	1030.82
24 Diversified Industrials(6)	1061.52	−1.1	1073.48	1074.40	1338.01	5.23	4.96	2.08	11.60	58.20	873.13
[illegible]											
79 Property(44)	1757.19	+0.9	1740.95	1726.27	2123.82	3.80	3.21	1.62	20.28	43.67	1165.07
80 INVESTMENT TRUSTS(115)	3525.91	−0.8	3552.60	3550.01	3266.00	2.29	1.87	1.19	45.82	60.19	1294.55
89 FTSE All-Share(842)	2632.91	−0.6	2648.51	2664.80	2308.90	2.98	2.54	2.00	20.93	63.10	2414.48
105 FTSE All-Share ex Inv Tr(727)	2643.20	−0.6	2658.74	2675.39	2314.34	3.00	2.56	2.02	20.62	63.85	1247.20
Information Technology	1304.27	+0.6	1296.26	1306.97	−	0.72	0.58	4.19	41.47	6.95	1310.74
FTSE Fledgling	1140.16	−0.1	1141.65	1138.94	1237.58	3.85	3.17	1.45	22.43	32.51	1280.66
FTSE Fledgling ex Inv Tr	1140.83	—	1141.08	1138.66	1257.40	4.22	3.48	1.55	19.15	36.22	1288.13
FTSE AIM	817.9	−0.3	820.1	820.4	989.9	1.16	0.91	0.53	80.00†	9.49	760.05

■ Hourly movements

	9.03	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	5836.0	5784.7	5794.4	5777.2	5788.3	5758.7	5748.7	5751.9	5836.3	5732.5
FTSE 250	4929.0	4923.6	4927.3	4933.5	4932.5	4926.0	4926.8	4923.8	4934.4	4922.6
FTSE 350	2760.8	2739.8	2744.0	2737.7	2742.0	2729.7	2725.8	2726.8	2760.6	2719.4
FTSE SmallCap	2063.01	2062.26	2062.29	2061.40	2061.47	2061.25	2061.50	2062.30	2064.02	2061.17
FTSE All-Share	2662.57	2643.42	2647.25	2641.45	2645.41	2634.07	2630.48	2631.47	2662.57	2624.84

Time of FTSE 100 Day's high: 9:03:15 Day's low 15:10:00. FTSE 100 1998 High: 6179.0 (20/07/98) Low: 4648.7 (05/10/98)
Time of FTSE All-Share Day's high: 9:03:00 Day's low 15:10:00. FTSE All-Share 1998 High: 2885.20 (20/07/98) Low: 2188.10 (05/10/98)

Further information is available on http://www.ftse.com.
 † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative. Name change: Dares Estates now Albemarle Property Investments (FTSE Fledgling).

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
3i	833	533	−34½
AMVESCAP	1,100	499	−19½
ASDA Group	8,300	155½	−¼
Abbey National	1,700	1288	−31
Alliance & Leicester	1,400	912	−8
[illegible]			

Based on trading volume for FTSE 100 constituent companies. † Indicates ... Source: [illegible]

صكتاب من الاهل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Nov 25 / Sch)

BELGIUM/LUXEMBOURG (Nov 25 / Frs.)

CZECH REP (Nov 25 / Koruna)

DENMARK (Nov 25 / Kr)

FINLAND (Nov 25 / Mka)

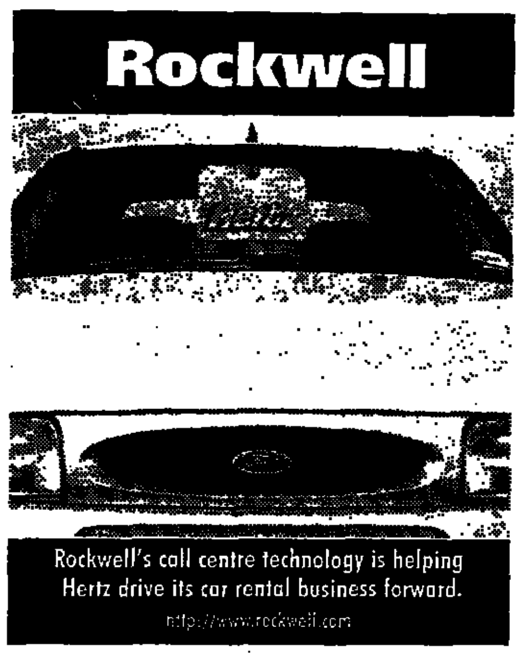
FRANCE (Nov 25 / Frs.)

GERMANY (Nov 25 / Dm.)

GREECE (Nov 25 / Drachma)

IRELAND (Nov 25 / Punt)

ITALY (Nov 25 / Lire)



NETHERLANDS (Nov 25 / Fls.)

NORWAY (Nov 25 / Kroner)

POLAND (Nov 25 / Zloty)

PORTUGAL (Nov 25 / Escudo)

SPAIN (Nov 25 / Pts.)

SWEDEN (Nov 25 / Kronor)

SWITZERLAND (Nov 25 / Frs.)

TURKEY (Nov 25 / Tk.Lira)

PACIFIC

JAPAN (Nov 25 / Yen)

AUSTRALIA (Nov 25 / Aust$)

HONG KONG (Nov 25 / H.K.$)

INDONESIA (Nov 25 / Rupiah)

MALAYSIA (Nov 25 / MYR)

NEW ZEALAND (Nov 25 / NZ $)

SINGAPORE (Nov 25 / S$)

SOUTH KOREA (Nov 25 / Won)

TAIWAN (Nov 25 / TW $)

THAILAND (Nov 25 / Baht)

AMERICAS

CANADA

TORONTO (Nov 25 / Can $)
4 pm close

MONTREAL (Nov 25 / Can $)
4 pm close

MEXICO (Nov 25 / Peso)
12.30 pm

AFRICA

SOUTH AFRICA (Nov 25 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY NOVEMBER 24 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY NOVEMBER 23 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	204.87	0.9	182.82	156.24	181.55	212.00	0.7	3.53	203.00	182.12	155.25	179.88	210.52	219.96	163.85	200.83
Austria (22)	181.10	-2.1	161.81	138.11	160.48	180.37	-2.1	2.17	184.96	165.92	141.45	163.89	183.78	253.73	166.45	188.70
Belgium (22)	372.39	-0.3	332.30	284.00	329.99	322.89	-0.3	2.09	373.64	335.20	285.76	331.08	323.98	398.52	249.06	250.18
Brazil (32)	166.90	0.0	148.93	127.28	147.90	367.82	0.0	2.42	166.96	149.78	127.69	147.94	367.87	269.34	102.68	213.05
Canada (119)	199.31	-1.8	177.86	152.00	176.62	223.48	-1.7	1.77	202.87	182.00	155.16	179.77	227.28	248.78	159.94	213.20
Denmark (34)	454.82	-1.3	405.86	346.86	403.03	400.88	-1.3	1.74	460.72	413.32	352.36	408.24	406.04	537.33	415.82	420.74
Finland (28)	486.66	0.9	434.28	371.15	431.25	529.36	0.9	1.72	482.37	432.74	368.91	427.43	524.79	506.46	267.59	307.17
France (75)	311.86	-0.6	278.29	237.84	276.35	279.61	-0.6	2.24	313.86	281.57	240.04	278.11	281.41	345.18	225.24	230.23
Germany (55)	271.96	-1.0	242.69	207.41	241.00	241.00	-1.0	1.35	274.61	246.35	210.02	243.33	243.33	325.61	216.42	216.57
Greece (35)	307.59	0.4	274.48	234.58	272.57	630.54	0.4	1.38	306.44	274.91	234.36	271.53	628.05	333.20	211.47	-
Hong Kong, China (67)	335.70	3.7	299.57	256.02	297.48	333.76	3.7	3.92	323.76	290.45	247.61	286.88	321.86	389.07	196.64	356.82
Indonesia (26)	52.42	-5.5	46.78	39.98	46.45	246.01	-3.9	1.29	55.45	49.74	42.41	49.13	255.96	100.77	19.04	100.77
Ireland (16)	503.47	-0.3	449.28	383.97	446.15	486.37	-0.3	1.99	504.88	452.93	386.13	447.37	489.02	560.44	377.17	377.17
Italy (53)	161.06	-1.5	143.73	122.83	142.73	202.99	-1.5	1.97	163.51	146.69	125.05	144.89	206.07	184.49	108.44	108.44
Japan (446)	100.64	2.6	89.81	76.75	89.18	76.75	2.3	0.88	98.09	88.00	75.02	86.92	75.02	109.73	76.63	104.55
Mexico (29)	1161.14	-2.6	1036.16	885.53	1028.93	12593.05	-2.3	2.03	1192.36	1069.68	911.91	1056.54	12886.11	1803.07	787.15	1568.95
Netherlands (27)	490.26	-1.2	437.49	373.89	434.44	430.05	-1.2	2.17	496.19	445.14	379.48	439.67	435.18	562.38	381.03	408.67
New Zealand (18)	58.29	0.5	52.02	44.45	51.65	57.98	0.3	5.03	58.02	52.05	44.37	51.41	57.80	89.04	45.66	82.02
Norway (38)	231.07	-0.1	206.20	176.23	204.77	234.74	-0.2	2.56	231.19	207.41	176.82	204.86	235.14	357.71	181.86	332.97
Philippines (22)	87.34	2.7	77.94	66.61	77.40	172.15	2.3	0.90	85.08	76.32	65.06	75.38	168.32	106.98	42.48	87.60
Portugal (18)	245.79	-1.8	219.33	187.45	217.80	294.31	-1.7	1.14	250.18	224.44	191.34	221.69	298.51	299.39	194.13	-
Singapore (41)	216.35	3.4	193.07	165.00	191.72	163.18	3.4	1.93	209.33	187.79	160.09	185.48	157.86	264.62	102.45	245.35
South Africa (38)	211.71	-0.8	188.93	161.46	187.61	262.73	-1.0	3.57	213.47	191.51	163.26	189.16	265.27	346.20	151.55	274.98
Spain (30)	374.73	0.4	334.40	285.79	332.07	411.57	0.4	1.92	373.16	334.76	285.39	330.65	409.83	417.73	258.99	258.89
Sweden (46)	492.87	-0.5	439.82	375.89	436.76	588.67	-0.9	1.98	495.13	444.18	378.67	438.73	593.98	628.19	379.18	468.98
Switzerland (38)	405.35	-2.1	361.72	309.14	359.20	353.51	-2.0	1.21	414.26	371.63	316.82	367.07	360.84	439.48	307.73	321.40
Thailand (35)	26.23	-0.8	23.40	20.00	23.24	36.88	-0.6	2.57	26.43	23.71	20.22	23.42	37.09	33.84	8.15	27.45
United Kingdom (208)	373.30	-0.2	333.12	284.70	330.80	333.12	-0.8	2.95	374.12	335.63	286.13	331.51	335.63	401.84	307.96	328.14
USA (620)	484.77	-0.4	432.59	369.71	429.58	484.77	-0.4	1.34	486.79	436.70	372.29	431.34	486.79	486.79	378.74	385.26
Americas (600)	431.73	-0.5	385.26	329.26	382.58	366.24	-0.5	1.37	433.77	389.14	331.75	384.36	367.95	437.03	343.40	349.88
Europe (737)	345.79	-0.7	308.57	263.71	306.42	316.92	-0.9	2.13	348.35	312.51	266.41	308.67	319.84	386.24	278.58	280.83
Eurobloc (346)	99.23	-0.8	88.55	75.68	87.93	95.18	-0.8	1.80	100.04	89.75	76.51	88.64	95.95	113.28	81.53	-
Nordic (146)	457.90	-0.3	408.62	349.22	405.77	464.15	-0.5	1.93	459.14	411.90	351.15	406.84	466.56	555.97	360.04	425.95
Pacific Basin (730)	109.33	2.5	97.56	83.38	96.88	85.54	2.3	1.52	106.66	95.69	81.57	94.51	83.65	119.48	82.88	114.64
Euro-Pacific (1467)	207.65	0.2	185.21	158.29	183.92	172.28	0.0	1.94	207.11	185.80	158.39	183.51	172.25	220.19	166.00	183.97
North America (739)	465.54	-0.5	415.43	355.04	412.53	465.82	-0.5	1.36	467.70	419.57	357.69	414.42	468.97	469.20	367.38	374.41
Europe Ex. UK (529)	320.75	-1.0	286.22	244.61	284.23	298.51	-1.0	1.72	323.94	290.61	247.75	287.04	302.51	366.32	248.34	250.51
Europe Ex. Eurobloc (391)	95.21	-0.7	84.96	72.61	84.37	94.52	-1.0	2.47	95.84	85.98	73.30	84.92	95.50	103.93	77.40	-
Europe Ex. UK Ex. Eurobloc (183)	95.45	-1.6	85.18	72.79	84.58	92.77	-1.6	1.47	96.95	86.97	74.15	85.91	94.26	109.21	75.16	-
Pacific Ex. Japan (284)	191.13	2.2	170.56	145.77	169.37	192.94	2.1	3.55	187.10	167.85	143.09	165.79	189.00	217.77	128.26	207.22
World Ex. Eurobloc (1960)	101.85	-0.1	90.89	77.68	90.26	100.84	-0.1	1.60	101.90	91.42	77.93	90.30	100.99	103.16	83.09	-
World Ex. US (1686)	207.45	0.1	185.12	158.21	183.83	177.44	-0.1	1.96	207.24	185.92	158.49	183.63	177.57	221.91	165.95	187.50
World Ex. UK (2098)	289.56	-0.2	258.39	220.83	256.59	259.68	-0.2	1.48	290.04	260.19	221.82	257.00	260.19	298.02	234.86	244.01
World Ex. Japan (1860)	394.47	-0.5	352.01	300.84	349.56	384.49	-0.5	1.71	396.39	355.61	303.16	351.24	386.60	411.23	318.78	324.63
The World Index (2306)	296.75	-0.2	264.81	226.32	262.97	266.46	-0.2	1.63	297.26	266.67	227.34	263.40	267.14	306.56	242.06	250.98

 CONSTITUENT CHANGE WITH EFFECT 25/11/98: Addition: Cable & Wireless Optus (Large Cap) (100% weighting) (Australia). Latest prices were unavailable for this edition.

Emerging markets:

IFC investable indices

Dollar terms

Nov 24 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	918.87	+1.3	-17.6
Brazil	338.14	-0.2	-29.9
Chile	498.54	-0.2	-22.4
Colombia[1]	418.18	+4.3	-49.3
Mexico	493.12	-2.5	-37.4
Peru[2]	154.83	-3.2	-30.1
Venezuela[3]	345.33	-3.8	-62.3
East Asia			
China[4]	31.08	+1.3	-43.8
India[7]	61.36	-0.5	-26.4
Indonesia[8]	26.69	-1.6	-20.7
Korea[5]	38.53	+0.1	+80.3
Malaysia	78.18	+2.7	-14.2
Pakistan[9]	101.62	-3.8	-58.1
Philippines	122.66	+1.7	+8.8
Sri Lanka[10]	75.88	+1.6	-34.8
Taiwan, China[4]	131.45	+2.3	-6.8
Thailand	69.87	-2.8	+48.8
Europe			
Czech Rep	48.50	-1.4	-11.4
Greece	554.57	+0.7	+71.2
Hungary[11]	265.56	-1.1	-15.6
Poland[12]	536.62	-0.8	-10.1
Portugal	280.53	-1.4	+32.9
Russia	28.94		-80.5
Slovakia	38.95	-0.5	-80.7
Turkey[14]	139.98	-7.6	-55.2
Mideast/Africa			
Egypt	64.73		-30.6
Israel	101.36	+0.1	-16.7
Jordan	210.34	-0.4	
Morocco	168.77	+0.1	+29.5
S Africa[13]	140.88	-0.9	-21.8
Zimbabwe[15]	97.84	+0.1	-61.1
Regions			
Composite	193.42	-0.5	-21.4
Latin America	467.33	-0.8	-31.0
Asia	103.83	+0.6	-3.6
EMEA	115.95	-1.1	-21.5
Europe	142.71	-1.6	-24.3
Eastn Europe	59.36	-0.8	-57.7
ME & Africa	58.22	-0.6	-18.6
Comp + Malay	194.28	-0.4	-21.0
Asia + Malay	102.91	+1.0	-4.5

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.
Latest indices were unavailable for this edition.

4 pm close November 25

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

116½	65⅞	Xerox	1.44	1.3		7359	112⅛	110¼	111⅞	+1⅜
55⅜	37½	Xtra Corp			12	1104	49¾	47½	49⅝	+1⅝
31⅞	22½	Yankee Egy	1.38	4.7	22	771	29¾	29	29⅜	+⅝
52¾	27½	York Intl	0.48	1.1	23	1082	42¾	41⅞	42⅝	-⅜
24⅜	6⅛	Zapata			2	872	7⅞	7⅝	7⅞	+⅛
30½	23	Zenith Nat	1.00	4.1	17	19	24⅜	23⅞	24⅜	
8⅞	5⅝	Zenix Inc x	0.70	10.4		53	6¾	6⅝	6¾	+⅛
14⅞	8⅞	ZweigFdx	1.08	9.5		280	11⅜	11⅛	11⅜	
9⅜	8⅛	Zweig Tot x	0.84	9.3		806	9⅛	8⅞	9	+⅛

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

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هكذا من الاحيل

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Nov 24	Nov 23	Nov 20	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9301.15	9374.27	9159.55	9374.27 (23/11)	7539.07 (31/8)	9374.27 (23/11/98)	41.22 (8/7/32)
Home Bonds	106.49	106.33	106.38	107.82 (5/10)	104.42 (11/5)	107.82 (5/10/98)	54.99 (1/10/81)
Transport	3078.72	3013.85	2974.92	3686.02 (16/4)	2345.00 (8/10)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	311.07	312.03	310.14	320.51 (8/10)	262.66 (9/1)	320.51 (8/10/98)	16.53 (8/7/32)

DJ Ind. Day's high 9457.86 (9425.77) Low 9219.28 (9137.92) (Theoretical¶)
Day's high 9380.20 (9374.27) Low 9299.05 (9159.29) (Actual¶)

Standard and Poors	Nov 24	Nov 23	Nov 20	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1182.99	1188.21	1163.55	1188.21 (23/11)	927.69 (9/1)	1188.21 (23/11/98)	4.40 (1/6/32)
Industrials¶	1407.65	1414.79	1388.61	1414.79 (23/11)	1077.40 (9/1)	1414.79 (23/11/98)	3.52 (30/6/32)
Financial¶	131.36	131.73	127.13	147.88 (14/7)	95.80 (8/10)	147.88 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	579.69	582.25	572.08	600.75 (17/7)	477.20 (8/10)	600.75 (17/7/98)	4.64 (25/4/42)
Amex Comp	666.83	672.00	675.01	753.67 (22/4)	563.75 (8/10)	753.67 (22/4/98)	524.20 (16/7/95)
NASDAQ Cmp	1965.88	1977.42	1928.21	2014.25 (20/7)	1419.12 (8/10)	2014.25 (20/7/98)	54.87 (3/10/74)
Russell 2000	396.60	398.15	394.29	481.41 (21/4)	310.28 (8/10)	481.41 (21/4/98)	123.36 (7/12/93)

■ RATIOS

	Nov 20	Nov 13	Nov 6	Year ago
Dow Jones Ind. Div. Yield	1.66	1.69	1.68	1.73
	Nov 18	Nov 11	Nov 4	Year ago
S & P Ind. Div. yield	1.25	1.29	1.30	1.50
S & P Ind. P/E ratio	33.53	32.98	32.70	25.38

US DATA

■ MARKET ACTIVITY

● Volume (million)	Nov 24	Nov 23	Nov 20
NYSE	766.280	774.180	721.300
Amex	27.428	28.469	22.099
NASDAQ	1,002.998	955.771	876.058

NYSE	Nov 24	Nov 23	Nov 10
Issues Traded	3,574	3,597	3,518
Rises	1,480	1,851	1,740
Falls	1,645	1,228	1,235
Unchanged	449	490	541
New Highs	165	128	88
New Lows	33	31	26

■ NYSE TRADING ACTIVITY

Volume : 766,280,000

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
AmOnLine	19,099,500	91⅝	+1⅜
Citigrp	18,317,200	50½	+1⅛
Monsnto	9,986,700	43¾	+2¾
Compaq	8,155,800	34⅛	+⅝
PhMorr	7,098,500	58¼	−⅛
Disney	7,086,400	29⅞	+⅛
Safeway	6,575,500	52¼	−¼
Cendnt	5,976,200	15¾	+¼
AsFstC	5,358,800	78⅞	+3
CrownCk	4,929,300	33⅛	+⅝

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
UnCamp	84⅞	+16	+32.7
BoiseC	32¼	+4⅜	+15.6
BushBoake	33½	+4⅛	+14.0
Whman	35⅝	+4⅛	+13.2
Downs			
Green Mt P	12⅛	−1⅜	−10.2
MicronTech	43½	−3⅞	−8.2
Growth Spn	21⅛	−1⅞	−8.1
Mattel	35⅝	−3⅛	−8.0

■ NASDAQ TRADING ACTIVITY

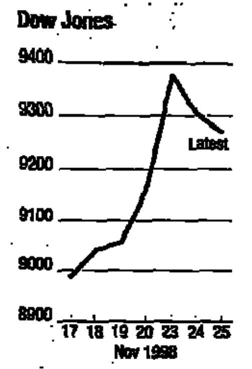
Volume :1,002,998,000

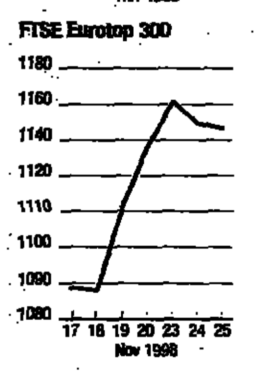
■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Egghead	29,611,100	18⅛	+4½
Micsft	25,239,300	121⅞	+2⅛
Yahoo	16,506,100	210½	−11¼
DellCmp	15,065,700	64⅝	−1
SunMic	14,283,800	72⅞	+1¾
Amz.com	13,607,100	214½	−3⅛
ApplMat	12,713,700	42¼	+2⅛
Novell	12,461,000	17¾	−⅛
Netscp	12,277,400	39⅝	−2¼
Intel	11,535,100	110¼	−3⅛

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Egghead	18⅛	+4⅜	+31.5
Scitex Co	10⅝	+1⅞	+21.3
NetriMcro	11¼	+1⅞	+20.4
WhitHr	20¼	+2⅜	+13.0
Downs			
PacSmerCal	16½	−7⅞	−32.1
VncamGrp	11	−2½	−18.5
Pixar	45⅞	−6¼	−11.9
Varlen	23⅝	−3	−11.3





JAPAN

	Nov 25	Nov 24	Nov 23	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	15073.47	15164.64	(c)	17264.34	12879.97	38915.9	85.25

Day's high: 15124.60. Day's low: 14942.10.

■ TOKYO TRADING ACTIVITY

Volume : 505,000,000

■ ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
SumMS	22,503,000	138	+8
NpStl	15,793,000	228	+5
NKK	13,956,000	92	+5
FujiBk	13,359,000	510	−7
NikkoS	9,961,000	478	+17
MtsElec	9,273,000	339	+9
Chiyoda	7,224,000	279	−31
Sakura	7,082,000	343	−9
Tshiba	6,773,000	686	−2
BTokM	5,649,000	1313	−11

■ BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
IwtsuEl	190	+34	+21.8
Chiyoda	279	+31	+12.5
ToyoKn	139	+14	+11.2
JnSeenM	155	+15	+10.6
NCR Jp	650	+60	+10.2
K'doSh	157	+14	+9.9
FudoCn	224	+19	+9.3
Downs			

GERMANY

	Nov 25	Nov 24	Nov 23	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	4944.37	4958.82	5019.12	6171.43	3896.08	6171.43	931.18

Day's high: 5004.14 Day's low: 4930.18

■ FRANKFURT TRADING ACTIVITY

Volume (m)

■ ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
DmlrCA	770,512	152.6	−3.2
Dt Bk	511,238	107.1	+3.3
DrsdBk	417,851	70.9	+2.6
BASF	407,255	66.1	−0.8
Cmrzbk	382,701	54.85	−0.55
Lufthn	355,379	35.8	+0.3
Bayer	328,744	70.35	−0.05
H'chst	313,938	75.05	−3.35
Siemns	279,837	116.7	−0.9
Dt Tel	205,399	47.2	−1

■ BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Dt Bab	92	+11	+13.6
Prssag	628	+29	+4.7
BayHyV	141.6	+5.8	+4.5
BilBg	41.7	+1.7	+4.3
Downs			
AsMnRg	253	−16	−5.9
Rhnmtl	39.5	−2.4	−5.7
Strbag	110	−5	−4.3
H'chst	75.05	−3.35	−4.3

FRANCE

	Nov 25	Nov 24	Nov 23	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	3849.84	3839.38	3845.81	4388.48	2862.54	4388.48	984.61

Day's high: 3880.75. Day's low: 3829.25

■ PARIS TRADING ACTIVITY

Volume : 419,456,260

■ ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
RhonPA	1,572,386	286	−4.5
Alctel	1,398,219	690	+15
FrTele	1,162,200	420	−1.1
Axa	1,078,309	730	
Vivndi	947,153	1339	−2
Paribas	757,993	506	+10.1
BNP	748,399	435	+17
TotalB	654,841	654	−24
Schndr	635,550	339	+6
Alstom	627,758	138	−5

■ BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
RemyC	94.8	+9.9	+11.7
CPR	249	+21	+9.2
Natxis	366	+28	+8.3
Sagem	3895	+295	+8.2
Downs			
FrmBel	4551	−238	−5.0
Esso	405.1	−19.9	−4.7
TotalB	654	−24	−3.5
Alstom	138	−5	−3.5

UK

	Nov 25	Nov 24	Nov 23	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	5756.3	5799.3	5848.4	6179.00	4648.70	6179	986.9

Day's high: 5836.3 Day's low: 5722.5

■ LONDON TRADING ACTIVITY

Volume : 863,100,000

■ ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Billiton	66,809,680	129	+4
BP	24,322,250	933	−6½
Shell T&T	20,458,340	353½	−4½
BTR	18,953,860	138	−3
Alld Zurich	17,538,210	827	+7
Safeway	15,108,290	220	−15
Hartstone	14,449,740	10	
Ladbroke	11,256,060	240½	+19½
Natl Power	11,133,370	538	−22
Reuters	11,115,050	382½	+15½

■ BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Aztec BSR	84	+45½	+118.2
Radius	105	+35	+50.0
Adv Pwr Comp	42	+11½	+37.3
Infobank	43½	+7½	+20.8
Downs			
CML Micro	83½	−42	−33.5
Hi-Tec	18	−7	−28.0
Banner Chem	9	−2½	−21.7
Costain	16½	−3½	−17.5

INDEX FUTURES

■ S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	1193.60	1187.30	−6.80	1199.00	1185.50	97,959	399,021
Mar	1198.00	1197.50	−8.10	1200.50	1198.00	5,401	28,129
■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	15000.0	15070.0	−60.0	15130.0	14930.0	25,203	195,578
Mar	14960.0	14970.0	−150.0	15050.0	14900.0	885	9,755

Open interest figures for previous day

■ CAC-40 (200 x Index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Nov	3855.0	3843.0	+3.0	3882.5	3835.0	90,816	151,569
Dec	3861.5	3852.0	+3.0	3890.0	3848.5	44,532	96,003
■ DAX							
Dec	4972.0	4978.0	+9.5	5033.0	4944.0	21,017	80,044
Mar	5019.5	5016.0	+9.0	5064.0	4987.5	1,429	4,164

■ OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Nov	682.00	694.00	+16.00	694.50	675.00	41,977	117,029
Dec	685.00	697.25	+18.00	698.00	678.00	34,115	133,336
■ SOFFEX							
Dec	7165.0	7051.0	−119.0	7193.0	7048.0	26,369	161,925
Mar	7200.0	7080.0	−120.0	7200.0	7080.0	1,172	5,208

WORLD MARKETS AT A GLANCE

Country	Index	Nov 25	Nov 24	Nov 23	1998 High	1998 Low	Yield	P/E
Argentina	General	19718.01	19581.19	19389.18	23485.47 23/3	12303.14 10/9	3.34	12.30
Australia	All Ordinaries	2749.4	2760.2	2747.6	2881.40 15/4	2458.20 1/9	3.39	21.20
Hungary	Bux	6043.90	6042.04	6134.79	9018.38 23/4	3775.02 21/9	na	na

Ended little changed in weak turnover.

Country	Index	Nov 25	Nov 24	Nov 23	1998 High	1998 Low	Yield	P/E
India	BSE Sens.	2881.59	2903.56	2919.57	4280.96 21/4	2764.18 20/10		
Portugal	BVL 30	4742.04	4738.43	4814.13	6179.89 22/4	3598.86 2/10	2.12	26.30
	PSI 20	10969.75	10859.57	11037.10	14292.99 22/4	8114.51 2/10		

THE NASDAQ-AMEX MARKET GROUP

4 pm close November 25

AMEX

4 pm close November 25

EASDAQ

STOCK MARKETS

Wary investors shy from merger mania

WORLD OVERVIEW

Investors remained sidelined ahead of today's Thanksgiving holiday in the US, with Europe almost unchanged and Asia closing marginally easier, *writes Emiko Terazono.*

Rhône-Poulenc of France and Germany's *Hoechst* announced they were in talks over a possible merger, but for most investors, it was a case of "buy on the rumour, sell on the news", as both drug companies, which had been rallying recently, closed lower.

Investors experienced the double-edged nature of the merger mania as speculation that Deutsche Bank planned to sell its 12 per cent stake in DaimlerChrysler to fund its acquisition of Bankers Trust, depressed the carmaker's share price by almost 3 per cent at one point.

Although Deutsche later denied such a move, the episode seemed to highlight the rising wariness among investors towards the recent revival of the "zeal to deal".

In Asia, Tokyo and Hong Kong edged lower, while the Taiwanese government was faced with further defaults linked to losses from stock market speculation. Investors holding a large part of their assets in cash may be faced with the "Asian dilemma".

According to Credit Suisse First Boston, the average investment trust held over 22 per cent of its assets in cash – well above the levels for the first half of this year. Unless investors are convinced equities will correct significantly in the near term, they will need to invest and reduce their cash levels to stay within acceptable deviation of their benchmarks.

Since Asia accounts for the largest weighting among the emerging market regions in various indices, investors should be turning to Asian equities, says Credit Suisse.

But it may be a hard choice for investors faced with uncertain economic prospects, despite the allocation argument. Although the US interest rate cuts and weakness in the dollar has raised hopes of an early bottoming in Asia's economies, a global slowdown is hardly good news for the region's export driven countries.

According to HSBC, the outlook for Asian exports remains gloomy. Regional demand which absorbs 50 to 60 per cent of its own exports has been contracting by double-digit figures from a year before and is unlikely to show a significant turnaround given the weak state of local consumption and investment.

The investment bank says the concern for Asia is that strong exports to the US and Europe, which have held up throughout the first half of this year, have been easing since mid-1998.

US shares mixed ahead of holiday

AMERICAS

US shares were mixed in a quiet early session ahead of today's Thanksgiving day holiday, *writes John Labate in New York.*

While three of the market's four main indices were moving higher by early afternoon, the Dow Jones Industrial Average continued to waver. It was down 29.86 or 0.3 per cent to 9,271.29, but the broader Standard & Poor's 500 index gained less than one point to 1,183.48.

The Nasdaq composite managed the best overall gains, but even that showed only modest momentum, with a rise of 5.55 to 1,971.43. Small-cap shares were higher as well, sending the Russell 2000 index up 1.62 to 398.22.

Among Dow components, International Paper fell $1 7/16 to $42 7/16 a day after it announced a multi-billion dollar takeover. Sears Roebuck also pulled lower, off $1⅛ to $46 11/16.

With the market's recent return to near record levels, analysts continued to adjust their stock recommendations and earnings expectations. Among the main movers in the technology sector, Advanced Micro Devices surged $3½ or 13.7 per cent to $29 after Merrill Lynch raised its rating to "attractive".

Lattice Semiconductor gained more than 5 per cent or $1⅞ to $37¾ when CS First Boston upgraded its rating to "strong buy".

Internet stocks stayed firm. America Online rose $1 to $92⅞ a day after confirming a takeover of Netscape Communications. AOL was also helped when Lehman Brothers raised its price target to $110 a share.

Among retailing stocks, Books-A-Million surged dramtically, jumping $6⅝ to $11 after the company said it had launched an improved internet site. Other internet retailers made strong gains, including Cyberian Outpost up $2½ to $40¼.

Shares of Philip Morris climbed $3/16 to 58¼ after the cigarette manufacturer announced an $8bn share buyback programme.

Cablevision Systems rose $1⅝ or nearly 4 per cent to $43 after reports that its planned acquisition of the New York Yankees baseball team had fallen through.

Share and bond markets will be closed today and by tradition very little business is transacted the following day.

TORONTO stayed dull in early trading, led lower by another dismal session for the heavyweight banks. The 300 composite index was off 59.17 at 6,511.10 at noon.

The profit-takers continued to focus on the financial sector, a strong market lately. Royal Bank of Canada fell C$1.75 to C$76.60 while Bank of Montreal shed C$1.15 to C$66.85.

Among industrials, Newbridge Networks showed a keen turn of speed, adding C$4.65 to C$43.35 on contract hopes. The group announced that Chinese state postal system was to include Newbridge equipment in its core multimedia network.

However, most shares in the broad market were lower. BCE came off 40 cents at C$55.20 and Seagram 75 cents to C$53.75. Inco shares dipped 40 cents to C$18.70 and Alcan Aluminium fell 60 cents at C$42.95.

São Paulo rises again

SAO PAULO climbed more than 3 per cent in early trading as investors took comfort in Brazil's return to the capital markets.

The Bovespa index jumped 264 to 8,870, meaning the exchange has risen almost 20 per cent in less than two weeks.

MEXICO CITY stocks drifted down in early trading, reflecting the early fall in New York. At midsession the IPC index was down 45.06 or 1.12 per cent at 3,987.12.

Volumes were light and dealers said investors were reluctant to commit themselves before the US Thanksgiving holiday today.

BUENOS AIRES edged higher as banks and industrial stocks prospered. The Merval index rose 9.64 or 1.9 per cent to 516.32 in early trading. Indupa, the petrochemical company, gained 4.7 per cent.

Dax pulls back early losses

EUROPE

German equities recovered from early weakness to close in **FRANKFURT** with the Xetra Dax index up 1.99 at 4,956.53.

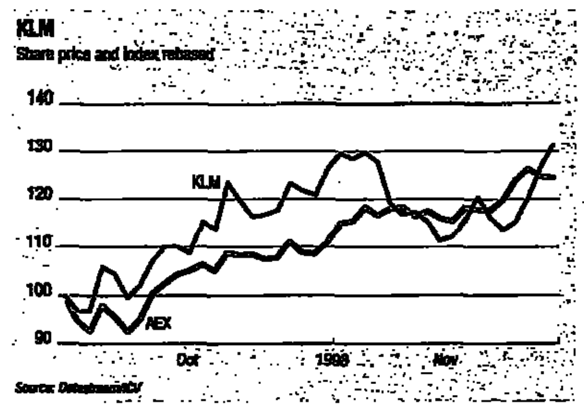
DaimlerChysler tumbled to DM151.50 on rumours Deutsche Bank was set to place its 12 per cent stake in the motor giant.

The story, that the bank needed the money to help finance the takeover of Bankers Trust of the US, was subsequently denied, and Daimler shares ended off DM2.20 at DM53.

Hoechst dipped DM3.36 to DM75 on French confirmation that it was in link-up talks with Rhône-Poulenc. Schering, a joint venture partner with Hoechst, gained DM5 to DM208 after Schering said it was involved in the negotiations.

Viag gained DM43.50 to DM1,058.50 and Preussag pushed DM27.60 higher to DM628.60. Among banks, HypoVereinsbank continued to attract investors pinning their faith on early consolidation in the sector. The stock added DM6.95 to DM140.95.

The FTSE Eurotop 300 index fell 2.57 or 0.22 per cent to 1,146.87. See Euro Prices page.



PARIS absorbed broad weakness for most heavyweight shares to finish with the CAC 40 index up 10.46 at 3,849.84. On a day of dull volume, banks rallied, but oils, Renault and France Telecom were all lower. Total lost FFr24 at FFr654 and Renault came off FFr7 to FFr230. However, the large banks provided good upside drive. BNP put on FFr17 or 4.1 per cent to FFr435 and Société Generale gained FFr24 to FFr925.

Rhône-Poulenc came off FFr4.50 to FFr286 after the French chemicals leader confirmed that it was in talks with Hoescht of Germany aimed at merging the two group's life sciences operations. But it could give no guarantee the talks would be successfully concluded.

Remy Cointreau was in demand on a press story that the drinks group would be teeing up the disposal of its Krug champagne operations. The shares jumped FFr9.90 or 11.7 per cent to FFr94.80.

Bouygues shot ahead to FFr1,175 before settling at FFr1,115, up FFr35, after the Ballore group, a big shareholder, filled in some of the detail behind the recent strength of the shares.

Ballore said it had been released from a pact under which it was limited to a 14 per cent stake in the construction leader.

"The decision means we have our liberty back. I cannot say what our intentions are but we can increase our stake beyond 14 per cent or link with an ally", said a Ballore spokesman.

AMSTERDAM traded narrowly in moderate volume to close with the AEX index down 1.76 at 1,114.75. The profit-takers stayed firmly focused on Philips, but KLM continued to reach for the sky.

Shares in the electronics giant came off Fl 6 at Fl 123.10 for a two-day decline of almost 9 per cent.

KLM provided the main contrast, surging on investor enthusiasm for the airline's links with Alitalia of Italy, details of which are due to be unveiled tomorrow.

The shares, which stood at Fl 98.20 in July, rose Fl 2.20 to Fl 58.70 for a three-day advance of around 13 per cent.

MILAN resumed upward progress after a fall on Tuesday ended a run of six consecutive rises.

The Mibtel index closed 309 or 1.4 per cent higher at 22,159. The market has gained 6.7 per cent in the past week. Fiat rose L290 or 5.9 per cent to L5,178 after it said it expected its Brazil business to resume growth next year.

Ifil, the industrial holding company that controls Fiat, climbed L236 or 3.5 per cent to L6,907.

Shares in Aeroporti di Roma, the state majority-owned airport operator earmarked for full privatisation, jumped L711 or 5.4 per cent to L13,845 after the chairman of IRI, its holding company, said it was time for the government to sell its remaining stake.

Shares in Benetton rose L180 or 6 per cent to L3,208 after Caltagirone, the construction company, joined its joint venture with Pirelli, the tyres and cables group, to bid for Aeroporti.

Caltagirone advanced L95 or 5.3 per cent to L1,875, while Pirelli put on L48 or 0.9 per cent to finish at L5,169.

ZURICH was dragged lower by Nestlé, which announced that net profits for this year would grow more slowly than sales. The SMI index finished down 114.5 or 1.6 per cent at 7,055.8. Nestlé shed SFr188 to close at SFr2,940.

Financial stocks drew back after their recent strong performance. UBS lost SFr9.50 or 2.2 per cent to end at SFr420.50, while Credit Suisse Group fell SFr7 or 2.9 per cent to SFr236.

MADRID edged forward as its stocks experienced mixed fortunes. The Ibex-35 index of leading shares gained 35.8 or 0.4 per cent to close at 9,515.

Banco Popular, the highly capitalised banking group, rose Pta540 or 5.6 per cent to Pta10,260 amid rumours that it would soon be involved in merger activity.

By contrast, the share price of Telefónica, the telecommunications group, continued to fluctuate after a fall on Monday and rise on Tuesday. The stock ended down Pta90 or 1.3 per cent at Pta6,670.

Written and edited by Jeffrey Brown, Michael Peel and Peter Hall

Inflation data reduce losses

SOUTH AFRICA

Johannesburg ended lower for the second day running, although better-than-expected inflation data helped to pare losses.

The all share index closed off 67.9 at 5,702.1. Positive October inflation figures lifted shares off their session lows, but poor domestic economic data continued to nag.

Financials fell 1.7 per cent to 8,933.6 and industrials lost 1.4 per cent at 6,436.5.

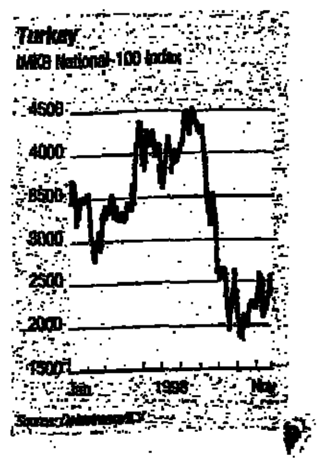
Golds were also dull, slipping 1.3 per cent to 1,037.4.

EMERGING MARKET FOCUS

Turkey to count cost of instability

The Turkish government could hardly have fallen at a worse time – 1998 was the year the country made progress in reforming its economy and 1999 was to have been the year it reaped recognition for its continuing efforts to reduce inflation and privatise the economy.

The anti-inflation drive launched by *Mesut Yilmaz*, the prime minister voted out of office yesterday in a censure motion, faces an uncertain future. The privatisation programme has been threatened by the emerging markets crisis and the domestic corruption scandals. But prospects looked tough before the latest crisis.



Mehmet Sami, the vice-president of Ata Invest, a Turkish brokerage, said the market, which rose 102.27 to 2,470.62 on the benchmark ISE National 100 index yesterday, had largely discounted the possibility of renewed political instability.

Early elections were always on the cards. Mr Yilmaz had been due to step down at the end of December under an agreement with Deniz Baykal, the leader of the left-of-centre CHP party.

Both Mr Sami and Gazi Ercel, governor of the Turkish central bank, agreed yesterday that the lack of a strong government – a caretaker administration will run the country until elections scheduled for April 18 – will not help Turkey steer its way through the dangers of an economic slowdown and the spiralling cost of domestic debt.

"Turkey is entering a sensitive period," said Mr Sami. Investors would wait and see if the stock market, which has fallen steeply from its mid-July peak of 4,530.99, would reach a threshold of 2,650 before deciding whether to put any new money into it.

The political instability is likely to have two clear costs that could feed through to the stock market. A high real domestic interest rate of 50 per cent – caused by a combination of political uncertainty and an international credit squeeze for emerging market economies – is unlikely to stabilise until a new administration is elected.

With international markets willing to lend only to select Turkish banks and companies, many Turkish companies without such access could find themselves in difficulty.

Second, a caretaker administration is less likely to continue a tough inflation campaign than one held accountable for its actions over the longer term.

The Yilmaz government's target for inflation in 1999 was raised to 35 per cent from 20 per cent. But Mr Ercel said yesterday a real interest rate of 50 per cent was "incompatible" even with an inflation target of between 40 and 50 per cent.

Failure to continue cutting inflation could diminish short-term prospects for raising cheaper foreign funds to reduce the large debt servicing burden attached to its domestic debt.

Turkish companies would continue to be crowded out of capital markets by government, except this time against a backdrop of slowing growth, Mr Sami said.

Leyla Boulton

Domestic worries weaken Tokyo

ASIA PACIFIC

Shares in **TOKYO** retreated yesterday, after Tuesday's impressive gains, amid concerns about Japan's economic health, *writes Alexandra Harney.*

The Nikkei 225 average lost 91.17 or 0.6 per cent to 15,073.47 after fluctuating between 14,942.1 and 15,124.6.

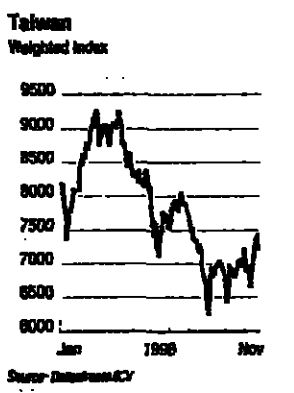
The market had surged 384.7 to 15,164.64 on Tuesday on renewed optimism about the US economy. But trading volume slackened as companies unwound cross-shareholdings and attention shifted to problems in the domestic economy and financial system.

The Topix index of first-section shares lost 1.93 to 1,153.68. Trading volume shrank to 505m shares from an estimated 580m the day before.

Investors focused on heavy industries and financial sector stocks. Banking stocks slid 0.45 per cent. Iron and steel shares rose 1.8 per cent.

Sumitomo Metal Industries, the troubled steel maker, gained Y8 to Y139 as the day's most heavily traded share.

Nippon Steel, the industry leader, improved Y5 to Y228, and NKK was up Y5 to Y92.



Banking shares were mainly negative. Fuji Bank lost Y7 to Y510, Sakura slipped Y9 to Y343 and the Bank of Tokyo-Mitsubishi was down Y11 to Y1,313.

Oil and coal companies were weak after Moody's, the credit rating agency, said it would put the debt of Showa Shell Sekiyu on review for a possible downgrade. The group's shares slid 4 per cent or Y30 to Y715 on the news.

The Nikkei 300 average slipped 0.83 to 231.43. Advancing issues outpaced declining shares 649 to 494. In Osaka, the OSE average gained 36 to 15,578.

TAIPEI ended above the day's lows but still deeply unsettled with the weighted index off 222.34 or 3 per cent at 7,213.50. The benchmark touched 7,116 at one stage, pushed lower mostly on news of a further round of stock defaults which were said to total T$4bn.

Brokers said the pared losses stemmed largely from the actions of the government stabilisation fund and added that broad sentiment remained fragile. The financial sector index lost 5.4 per cent.

HONG KONG pared initial gains to closer with the Hang Seng index off 130.72 or 1.2 per cent at 10,720.99.

After a day of fluctuating fortunes, the profit-takers finally got the upper hand, although there was some derivatives-led support ahead of tomorrow's November index future expiry.

HSBC fell HK$2 to HK$199. First Pacific, which stepped up its interest in PLDT of the Philippines to 27.4 per cent, shed 75 cents to HK$3.80. Red chips lost 2.4 per cent and H shares came off 1.5 per cent.

BANGKOK moved higher on the back of positive broker comment. The banks index rose 3.6 per cent and the finance index 8.3 per cent. The SET index closed up 7.35 at 391.1 in above-average volumes. National Finance gained Bt2.50 to Bt13.

JAKARTA fell almost 8 per cent as investors took profits after recent gains. The composite index ended down 32.70 at 387.38.

The exchange shed 1.2 per cent on Monday after advancing nearly 20 per cent in the previous four days' trading.

Dealers said they had expected a decline as the recent forward movement had been founded on short-term speculative buying by international funds.

Overseas investors had been attracted by lower global interest rates and generous valuations on Asian markets.

KUALA LUMPUR continued its surge of the last week to reach its highest closing price since June 9.

The composite index moved 12.49 or 2.6 per cent higher to 502.15. The exchange has climbed 9.5 per cent since the close last Thursday.

Dealers said Malaysian state-owned funds had been buying heavily to improve their portfolios before the reporting deadline at the end of the year.